# NOTE

This Microfiche meets the quality requirements of the American National Standard for Microfiche of Documents (ANSI PH5.9-1975). However, because of imperfections in the document from which it was made, it contains images that are illegible or difficult to read. The source document for this microfiche is the best copy that could be obtained prior to filming.

CIS Congressional Information Service
Washington D C

S. HRG. 101-393

# IMPACT OF A SEQUESTER ON THE DEPARTMENT OF DEFENSE IN FISCAL YEAR 1990 AND FISCAL YEAR 1991

## HEARING

BEFORE THE

## COMMITTEE ON ARMED SERVICES
## UNITED STATES SENATE

ONE HUNDRED FIRST CONGRESS

FIRST SESSION

NOVEMBER 8, 1989

Printed for the use of the Committee on Armed Services

U.S. GOVERNMENT PRINTING OFFICE

24-783 WASHINGTON : 1990

For sale by the Superintendent of Documents, Congressional Sales Office
U.S. Government Printing Office, Washington, DC 20402

S201-12.

## COMMITTEE ON ARMED SERVICES

SAM NUNN, Georgia, *Chairman*

| | |
|---|---|
| J. JAMES EXON, Nebraska | JOHN W. WARNER, Virginia |
| CARL LEVIN, Michigan | STROM THURMOND, South Carolina |
| EDWARD M. KENNEDY, Massachusetts | WILLIAM S. COHEN, Maine |
| JEFF BINGAMAN, New Mexico | PETE WILSON, California |
| ALAN J. DIXON, Illinois | JOHN McCAIN, Arizona |
| JOHN GLENN, Ohio | MALCOLM WALLOP, Wyoming |
| ALBERT GORE, JR., Tennessee | SLADE GORTON, Washington |
| TIMOTHY E. WIRTH, Colorado | TRENT LOTT, Mississippi |
| RICHARD C. SHELBY, Alabama | DAN COATS, Indiana |
| ROBERT C. BYRD, West Virginia | |

ARNOLD L. PUNARO, *Staff Director*
PATRICK A. TUCKER, *Minority Staff Director and Counsel*

# CONTENTS

## CHRONOLOGICAL LIST OF WITNESSES


Page

Hon. Sean O'Keefe, Comptroller, Department of Defense, accompanied by Gen. Robert W. Riscassi, Vice Chief of Staff of the Army; Adm. Leon A. "Bud" Edney, Vice Chief of Naval Operations; Gen. Joseph J. Went, assistant commandant of the Marine Corps and Chief of Staff of the Marine Corps; and Gen. Monroe W. Hatch, Vice Chief of Staff of the Air Force..... 9

# IMPACT OF A SEQUESTER ON THE DEPARTMENT OF DEFENSE IN FISCAL YEAR 1990 AND FISCAL YEAR 1991

---

WEDNESDAY, NOVEMBER 8, 1989

U.S. SENATE,
COMMITTEE ON ARMED SERVICES,
*Washington, DC.*

The committee met, pursuant to notice, at 9:34 a.m., in room SD-342, Senator Sam Nunn (chairman) presiding.

Committee members present: Senators Nunn, Exon, Levin, Bingaman, Dixon, Gore, Wirth, Warner, Thurmond, Wilson, and Gorton.

Committee staff members present: Arnold L. Punaro, staff director and Marie Fabrizio Dickinson, assistant chief clerk.

Professional staff members present: John J. Hamre, David S. Lyles, Michael J. McCord, Norman G. Mosher, and Frederick F.Y. Pang.

Minority staff members present: Patrick A. Tucker, minority staff director and counsel; Romie L. Brownlee, deputy staff director for the minority; Ronald P. Kelly, George W. Lauffer, John E. Mansfield, Mark B. Robinson, and Ann Elise Sauer, professional staff members.

Staff assistants present: Mary J. Kampo and Cindy Pearson.

Committee members' assistants present: Jeffrey B. Subko, assistant to Senator Exon; William J. Lynn, assistant to Senator Kennedy; Edward McGaffigan, Jr., assistant to Senator Bingaman; Charles C. Smith, assistant to Senator Dixon; Milton D. Beach, assistant to Senator Glenn; Leon S. Fuerth, assistant to Senator Gore; Jefferson B. Seabright, assistant to Senator Wirth; Terrence M. Lynch, assistant to Senator Shelby; Dudley L. Carlson, assistant to Senator Wilson; Anthony H. Cordesman, assistant to Senator McCain; Robert M. Soofer, assistant to Senator Gorton; Charles G. Pearcy, assistant to Senator Lott; and Eric H. Thoemmes, assistant to Senator Coats.

## OPENING STATEMENT OF SENATOR SAM NUNN, CHAIRMAN

Chairman NUNN. The committee will come to order.

This morning the Armed Services Committee meets to receive testimony on the impact of the Gramm-Rudman sequester on the Department of Defense.

I think everyone should understand that a sequester is in effect today, as we sit, and the issue is whether Congress and the admin-

istration should work together to repeal the sequester by taking the necessary budget steps.

In recent weeks there have been, in my view, some rather curious and puzzling comments made by some on the impact of a Defense sequester, including comments by several spokesmen for the Bush administration.

Some administration spokesmen have indicated that a year-long sequester would not be much different from a normal appropriation for the Department of Defense. In fact, some even seem anxious to keep the sequester in effect.

Marlin Fitzwater, the White House press secretary, said last Wednesday that the "sequester has some attractive benefits to it." These are puzzling statements to me. Maybe we will learn more about them this morning.

It has long been my understanding, and I believe the understanding of most members of this committee, that a sequester would be very damaging to the Department of Defense. Indeed, during his confirmation hearing on May 17, our principal witness today, Mr. Sean O'Keefe, indicated that a sequester, quoting Mr. O'Keefe, "would seriously disrupt the Defense program." Mr. O'Keefe went on to say that a sequester "would have a severe and disruptive impact."

Senator Sasser, the chairman of our Budget Committee said, quoting him, "national defense will be a primary casualty"of a sequester.

As my colleagues know, the President issued a sequester order on October 16 as required by law. That sequester would reduce budget authority available to the Department by $13.3 billion in order to save the required $8.1 billion in outlays.

But of course these are theoretical figures and as we get into testimony later today they vary considerably because of the complexity, the starting point, the baseline, the status of the appropriation bills, the possibility of continuing resolution, the difference in outlay measurements, et cetera, et cetera, et cetera. So there are all sorts of complexities here that affect this final bottom line that is so important to the military services.

The President chose not to exempt, or not to exercise, rather, his discretion under the law to fully or partially exempt the personnel accounts. That choice, I believe, Mr. O'Keefe, was made in August of this year. Is that when he has to make that choice?

Mr. O'KEEFE. Yes, sir.

Chairman NUNN. According to the information provided to the committee by the Department of Defense on November 1, should the sequester order be implemented in its current form without relief, and we are going to talk about possible relief today and flexibility, the following result would occur:

Over 170,000 military personnel would have to be separated during the next 10 months. Over 125,000 drilling reservists would have to be cut. Reserve school and special training would have to be reduced by over 30 percent.

In the words of the DOD point paper, "Repair backlogs would grow sharply, essential support to the operating forces would be curtailed, civilian manpower would be cut and on-going programs would be severely disrupted."

As I read through the Department's point paper—and I ask unanimous consent that that point paper be entered into the record at this point—I find it very hard to conclude, as some have, that a sequester order would not be all that bad for the Defense Department.

[The information referred to follows:]

IMPACT OF AN $8.1 BILLION OUTLAY SEQUESTER ON DOD

The October 16 Presidential Order sequestering funds in accordance with the Balanced Budget and Emergency Control Act of 1985, as amended, requires reductions to the Department of Defense of $12.9 billion in new budget authority and $1.7 billion in unobligated balances. That act also provides that the President may submit an alternative sequester report for the Department of Defense, as recommended by the Secretary of Defense.

On October 19 the President submitted an alternative sequester report for the Department of Defense which increases transfer authority for the DOD from $3 billion to $6 billion to provide maximum flexibility to accommodate the sequestration if it remains in effect for all of FY 1990. This authority will allow zero sum transfers among appropriations and subdivisions of the Department of Defense.

By October 20 the Majority Leaders of the House and Senate shall (by request) each introduce a Joint Resolution which affirms the alternative proposal of the President. These resolutions will be referred to the appropriations committees, and if not reported within 5 days, will be discharged from the committees and be placed on the House and Senate calendars. On the third day thereafter any member may move to bring the resolution to the floor. There are other procedures to limit debate and assure a prompt consideration by the Congress. The effect of these "fast track" procedures will be congressional action on the Alternative Report within two weeks of its submission.

The additional transfer authority proposed for DOD in the President's Alternative Sequester Report will permit DOD to manage the very damaging effects of an automatic across-the-board sequester on all appropriations. The Secretary remains committed to retaining quality of life for military personnel, even at potentially lower end strength levels, maintaining economic production rates, assuring the President's highest priorities for strategic modernization and sustaining adequate readiness for all forces. The specific utilization of the transfer authority will be determined following the submission of the Services' detailed impact statements, which are due in November.

Without this needed flexibility the automatic sequester could have the following effects on DOD programs:

A sequester of $3.4 billion in Military Personnel would cause active forces to be reduced by over 170,000; reduce PCS rotations by 20 percent; reduce full-time active duty reserve strength by 6,000 to 7,000 (nearly 10 percent) and reduce over 125,000 drilling reservists (nearly 12 percent); and reduce reserve school/special training over 30 percent.

A sequester of $3.8 billion in operations would either reduce readiness sharply or severely disrupt maintenance support programs, depending on how implemented.

If flying hours, steaming hours, ground operating tempo and unit training are protected to avoid immediate readiness degradation, disproportionately larger reductions have to be taken in equipment and facility maintenance, logistic support, base operations and individual training programs. Repair backlogs would grow sharply, essential support to the operating forces would be curtailed, civilian manpower would be cut and ongoing programs would be severely disrupted.

Similarly, many largely uncontrollable costs in the operations accounts, such as medical care, unemployment compensation, disability compensation and property damage claims cannot be reduced, thereby increasing the size of the reductions that must be made in the discretionary areas mentioned above.

A sequester of $3.6 billion in Procurement would leave Defense with an inefficient procurement acquisition program. Cost reductions to be gained in FY 1990 through planned economic production rates would be lost, program cost would increase, delivery schedules would slip and quantities would be reduced. In addition, FY 1990 increments of prior year multiyear procurement contracts may incur quantity reductions resulting in cost penalties and reduced savings.

The most severe impact in Procurement will occur in those programs, projects or activities in which a single contract constitutes almost the total value of the program. Examples range from truck programs to missile and radar programs. Where the PPA is composed of several programs and contracts, the effect of the sequester will be less dramatic. The procurement of multiple communications equipments in single programs is an example of this situation.

A sequester of $1.7 billion in RDT&E would force contract renegotiation with attendant cost increase and schedule slippage in number of programs including C–17, ATA, ATF, LRAACA and JSTARS. A reduction in the B–2 test and development would delay the introduction of this improved strategic bomber capability. Similarly, a reduction in the SSN–21 would necessitate a slip in the production plan.

A sequester of $.4 billion in Military Construction and Family Housing would require approximately 150 separate military construction projects to be eliminated, including operational and training, maintenance, barracks, warehouses, guard and reserve centers, child care centers, dependent schools, chapels, gymnasiums, and other community facilities. Family housing construction and improvements to existing older units would be severely curtailed.

---

TALKING PAPER

The following items are suggestions for your use in support of the President's Alternative Sequester Report to increase general transfer authority to $6 billion.

Increased transfer authority is the best way to provide the flexibility DOD needs to manage programs efficiently and effectively under a sequester.

Without an enacted appropriation, it is not possible to develop a good alternative sequester plan. CRA is simply too uncertain a base to use to propose an alternative.

Increased transfer authority has a major advantage to both Congress and the DOD—time to do this right. This approach gives us the time to assess exactly what programs need to be fixed and where to get the funds to fix them without creating more problems.

It also gives the Congress, through the oversight committees, time to evaluate our proposals and make reasoned judgments on them.

Some have raised concern about outlay neutrality. It is a red herring. The proposal doesn't move any money, so it has no outlay impact. We don't know yet what we'll have to fix or where we will propose to transfer funds from. The outlay impact, if any, of the transfers simply cannot be estimated at this time.

The bottom line is approval of our proposal can be a big help in keeping procurement efficient, protecting multiyear procurements and economic production rates, maintaining strategic and conventional modernization priorities and preserving readiness and quality of life programs.

Congress doesn't give up its prerogatives in approving the authority since our reprogramming procedures require prior approval of the four oversight committees.

It's a win/win proposition for both Congress and DOD. We need your support.

As a final point, our request for an alternative to uniform sequester was designed to activate and focus the debate on the effect of the sequester. I think we have done that.

GRH SEQUESTRATION

| | MilPers not exempt | | MilPers exempt | |
|---|---|---|---|---|
| | New BA | Balances | New BA | Balances |
| Military personnel | 3.4 | ..... | ..... | ..... |
| O&M | 3.8 | ..... | 6.4 | (1) |
| Procurement | 3.6 | 1.4 | 6.0 | 2.3 |
| RDT&E | 1.7 | .1 | 2.8 | .2 |
| MilCon | .3 | .1 | .4 | .2 |
| Family housing | .1 | (1) | .2 | (1) |
| Total 051 | 12.9 | 1.6 | 15.9 | 2.7 |
| DOE | .4 | (1) | .6 | (1) |
| Total 050 | 13.3 | 1.7 | 16.5 | 2.8 |

## GRH SEQUESTRATION—Continued

| | MilPers not exempt | | MilPers exempt | |
|---|---|---|---|---|
| | New BA | Balances | New BA | Balances |
| Uniform percentage | 4.3% | | 7.2% | |

[1] Less than 0.1.

# BA COMPARISON:
# FY 89 ENACTED vs
# ALTERNATIVE FY 90 FUNDING LEVELS
($ BILLIONS)

| | FY 89 ENACTED | FY 90 REQUEST | FY 90 BBA* | BBA W/SEQ* | FY 90 CRA | CRA W/SEQ |
|---|---|---|---|---|---|---|
| 051 TOTAL | 290.2 | 295.6 | 295.2 | 287.7 | 283.6 | 277.5 |
| CHANGE FROM FY 89 | | +5.4 | +5.0 | -2.5 | -6.6 | -12.7 |
| REAL GROWTH | | -1.6% | | -4.2% | | -7.6% |

* ANTICIPATED APPROPRIATIONS IN COMPLIANCE WITH THE BIPARTISAN BUDGET AGREEMENT.

NOTE: POST-SEQUESTER INCLUDE THE EFFECT OF SPECIAL RULES UNDER GRH.

## BA COMPARISON
## FY 89 ENACTED vs ALTERNATIVE FY 90 FUNDING LEVELS
($ BILLIONS)

| | FY 89 ENACTED | FY 90 REQUEST | FY 90 BBA* | BBA W/SEQ* | FY 90 CRA | CRA W/SEQ |
|---|---|---|---|---|---|---|
| 051 TOTAL | 290.2 | 295.6 | 295.2 | 287.7 | 283.6 | 277.5 |
| Military Personnel | 78.3 | 79.2 | 78.8 | 75.5 | 78.8 | 75.5 |
| Operation & Maintenance | 85.4 | 90.2 | 87.2 | 85.7 | 86.5 | 85.1 |
| Procurement | 79.9 | 78.8 | 83.8 | 82.0 | 76.1 | 75.4 |
| RDT&E | 37.7 | 39.5 | 37.7 | 36.9 | 35.4 | 34.7 |
| Military Construction | 5.7 | 4.8 | 4.6 | 4.6 | 4.4 | 4.4 |
| Family Housing | 3.3 | 3.2 | 3.1 | 3.0 | 3.1 | 3.0 |
| Other | -0.1 | -0.1 | 0.1 | 0.1 | -0.7 | -0.7 |

* Anticipated appropriations in compliance with the Bipartisan Budget Agreement.

NOTE: Post-sequester includes the effect of special rules under GRH.

THE WHITE HOUSE,
*October 19, 1989.*

*To the Congress of the United States:*

In accordance with section 252(c)(2)(C)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, I hereby transmit an alternative sequester report for the Department of Defense, as recommended by the Secretary of Defense, for Fiscal Year 1990, together with a proposed joint resolution that provides for adoption of the report.

GEORGE BUSH.

---

ALTERNATIVE SEQUESTER REPORT FOR THE DEPARTMENT OF DEFENSE FOR FISCAL YEAR 1990

To provide for flexibility among defense programs, projects, and activities, the amount of transfer authority available to the Secretary of Defense pursuant to Section 8014 of the Department of Defense Appropriations Act, 1989, as made available by the Joint Resolution making continuing appropriations for the fiscal year 1990, or any comparable provision subsequently enacted for fiscal year 1990, is proposed to be established at $6,000,000,000, effective upon enactment of a joint resolution approving this report.

---

JOINT RESOLUTION

Approving the report of the President submitted under section 252(c)(2)(C)(i) of the Balanced Budget and Emergency Deficit Control Act of 1985, as amended

*Be it resolved by the Senate and House of Representatives of the United States of America in Congress assembled,* That the report of the President as submitted on October 19, 1989, under section 252(c)(2)(C)(i) is hereby approved.

Chairman NUNN. Perhaps there has been some change of heart at the Department. Perhaps circumstances have changed since that information was provided just last week. Perhaps the original numbers were wrong. That is what we want to get into today, but we will of course rely on our witnesses to tell us how they see it as of this time.

For years, the administration spokesmen—and this is true in Republican as well as Democratic administrations, both parties—have criticized the Congress repeatedly for proposing cuts when we are in the middle of arms control negotiations, saying that they would be very disruptive to ongoing arms control negotiations and in effect be unilateral.

Yet it appears at this point the Bush administration is flirting with a sequester that the Department of Defense tells us could reduce over 170,000 military personnel when President Bush himself has tabled a proposal to cut 30,000 of our troops out of Europe if the Soviets make dramatic reductions and come down to equal ceilings.

So we are engaged right in the middle of the most important conventional arms control negotiations our country has ever engaged in, and that is the background music for what amounts to unilateral cuts. I believe we must understand just what the impact of a sequester order would be before we say that we can live with the consequences.

We welcome our witnesses today, the Honorable Sean O'Keefe, the Comptroller of the Department of Defense, and Mr. O'Keefe, let me express my deep appreciation for all your splendid cooperation during the extremely difficult conference we have just com-

pleted. Your whole team has been very helpful and we are grateful to you.

Gen. Robert W. RisCassi, the Vice Chief of Staff of the Army, Adm. Leon A. "Bud" Edney, the Vice Chief of Naval Operations, Gen. Joseph J. Went, the Assistant Commandant and Chief of Staff of the Marine Corps, and Gen. Monroe W. Hatch, the Vice Chief of Staff of the Air Force.

We appreciate each of you being here, and particularly on such short notice. We are just running out of time as these things are happening, so none of us had a choice of giving you a week or two notice and we appreciate all of you being here on short notice.

Senator Thurmond, we welcome you here this morning. Do you have any opening comments you would like to make?

Senator THURMOND. Thank you, Mr. Chairman—very briefly.

Mr. Chairman, I join in welcoming Mr. O'Keefe and the Vice Chiefs. Although I know that they do not carry good news, I value their judgment and counsel regarding the impact of a sequester on the Department of Defense.

Mr. Chairman, the Presidential order sequestering funds in accordance with the Balanced Budget Emergency Control Act of 1985 requires a reduction of the Department of Defense of approximately $13 billion.

We all know that these cuts will have a significant impact on our Armed Forces. What we do not know is what the impact will be if we continue to tolerate the tremendous deficit that we have accumulated. I, for one, believe that we must reduce the deficit now, or face a much bigger problem in the next several years.

Over the past 2 weeks I have read numerous articles speculating on the pros and cons of a sequester. These articles include examples of the impact the sequester would have on our Armed Forces. As often happens with press reports, they generate more questions than answers.

Mr. Chairman, we look forward to the testimony of these witnesses here and I will certainly read this testimony. I have another engagement in the Judiciary Committee and must depart. However, I want our panel to know they are important witnesses and we appreciate their presence and we value their judgment and advice.

Thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Thurmond.

Senator Dixon has asked that his statement be made a part of today's record.

[The prepared statement of Senator Dixon follows:]

PREPARED STATEMENT BY SENATOR ALAN J. DIXON

Mr. Chairman, the administration has announced that it is considering allowing the Gramm-Rudman-Hollings fiscal year 1990 sequestration to remain in effect for the year. This means that a meat-ax will be used on Defense spending.

This committee has tried over the last few years to take a resonable and balanced approach to reducing the Defense budget. In contrast, this approach by the administration is far from reasonable. Mr. Chairman, this reminds me of a similar situation the Defense Department faced in the 1970's.

The Defense Department says that because the President chose not to exempt military personnel—as the law allows—there would be a $3.1 billion cut in this category, which in turn would require the reduction of approximately 170,000 active duty troops. We have just spent over 2 months in conference fighting not to have an across-the-board cut in Defense personnel by allowing the Secretary of Defense to

choose the best way to make those cuts. But he does not have this freedom under the fiscal year 1990 sequestration.

Where Mr. Chairman, is the voice of the Secretary of Defense? I hope today's witnesses can tell us just what the Secretary's plans are.

Thank you, Mr. Chairman.

Chairman NUNN. Mr. O'Keefe, I know you have some prepared testimony and some charts to share with us this morning, so why do you not lead off?

**STATEMENT OF HON. SEAN O'KEEFE, COMPTROLLER, DEPARTMENT OF DEFENSE, ACCOMPANIED BY GEN. ROBERT W. RISCASSI, VICE CHIEF OF STAFF OF THE ARMY; ADM. LEON A. "BUD" EDNEY, VICE CHIEF OF NAVAL OPERATIONS; GEN. JOSEPH J. WENT, ASSISTANT COMMANDANT AND CHIEF OF STAFF OF THE MARINE CORPS; GEN. MONROE W. HATCH, VICE CHIEF OF STAFF OF THE AIR FORCE**

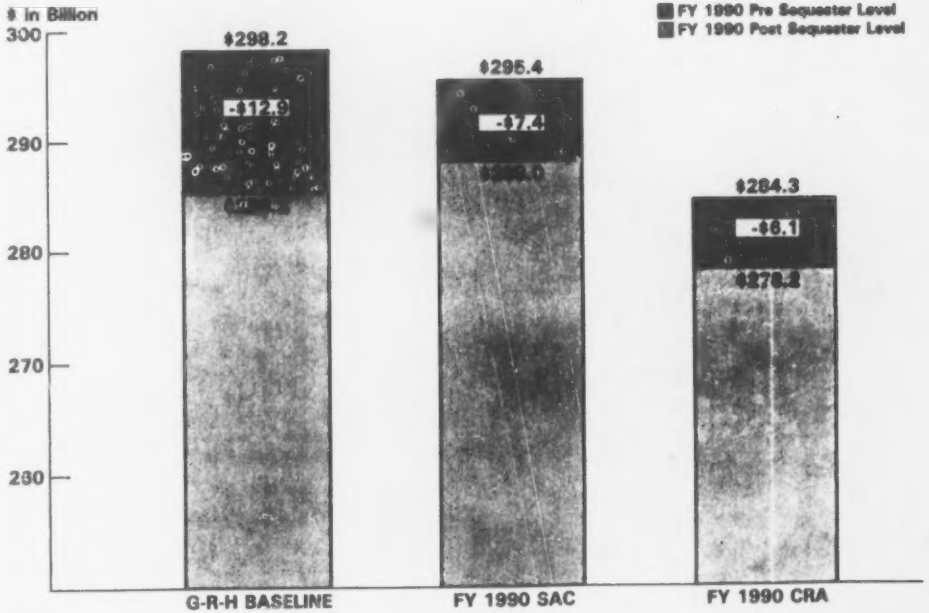
Mr. O'KEEFE. Thank you, Mr. Chairman. I would like to express the Department's appreciation for the support offered by this committee and by the Senate Appropriations Committee for the President's 1990 Defense program. As you mentioned, this was a very difficult conference you just went through, and the Secretary is most pleased with the results, in large measure due to the results of the efforts of this committee. I appreciate the opportunity, also, to return to the Senate's familiar surroundings, but it is with mixed emotion by virtue of the difficult topic to be discussed today.

The President has announced that the administration is prepared to accept a sequester under the Gramm-Rudman-Hollings legislation rather than to accept a reconciliation bill that does not achieve real deficit reductions.

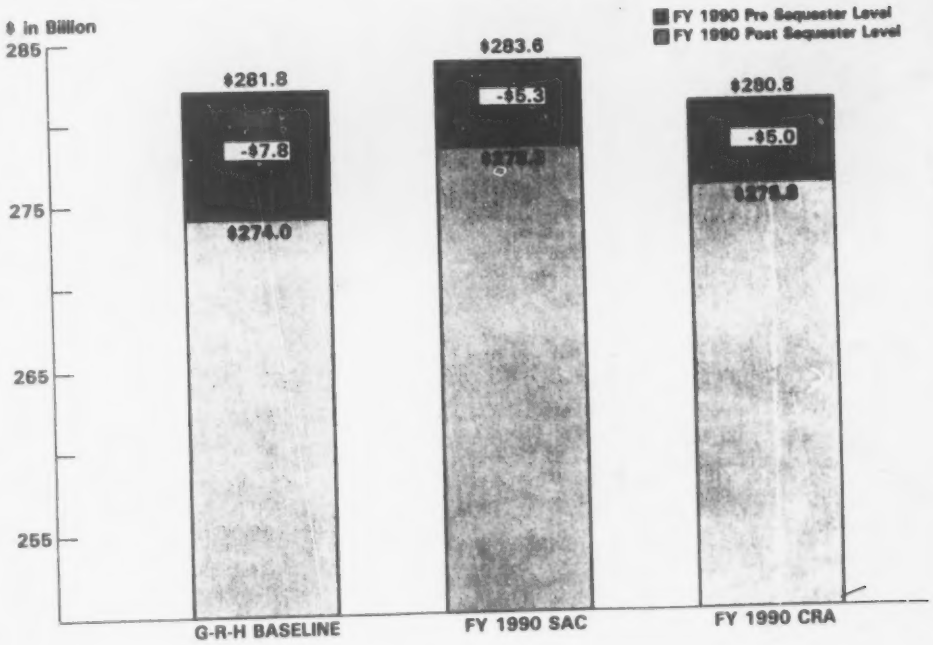
A sequester under Gramm-Rudman-Hollings has not been effected since 1986, when a limited sequester occurred. Although we remain hopeful that the Congress will still be able to pass a reconciliation measure that can be signed, we must now seriously plan for the eventuality that we will be forced to operate for the rest of the year under the conditions of a sequester. It is, however, at this time the law of the land and the Secretary intends to comply with the law, however painful that may be.

The final sequester order published by OMB directed a 4.3 percent reduction to each program, project and activity in the National Defense function. Since we do not have the final appropriations bill enacted for the year, the actual reductions will be somewhat different than those published by OMB in the final order. The calculations are very complicated, but let me attempt to walk through them using the charts that you see to the chairman's left.

## FY 1990 DoD (051) BA ALTERNATIVES UNDER G-R-H



## FY 1990 DoD (051) OUTLAY ALTERNATIVES UNDER G-R-H



The budget authority is displayed on the far left-hand side, and outlays on the right.

First, based on the baseline calculated in accordance with the Gramm-Rudman-Hollings law, the National Defense function takes an outlay sequester of $8.1 billion. Of this, $7.8 billion is attributable to the Department of Defense itself. The balance affects the Department of Energy.

To achieve the outlay reduction, budget authority reductions of $12.9 billion are required. In addition we have to sequester $1.7 billion of the unobligated balances from prior years.

If such a baseline were actual appropriations, we would be left with fiscal year 1990 Defense budget authority of $285.3 billion. Again, Mr. Chairman, as you mentioned earlier, the problem with dealing with baselines is that it is a notional calculation. That is, it does not bear any relationship to what is considered an appropriations act or the budget resolution or any other active budget document that the Congress is considering. It is simply an expression of what that spending ought to be, based on the G–R–H formulas. It bears no relationship to any bill at this time.

Again, the G–R–H baseline is theoretical. However, the account by account sequester calculated under this baseline must be applied against actual appropriations, which we do not yet have. Under the 1987 amendments to the Gramm-Rudman Act, if appropriations are passed after the effective date of the final sequester order (October 15), then any appropriation reductions must be taken into account when determining the actual, or applied, sequester.

The Senate appropriations bill as passed by the Senate last month meets the budget resolution and the 302(b) calculations for the resolution itself to comply with the bipartisan summit agreement levels. We are using that as an example here, because it is the only bill that is active right now that does hit the budget resolution targets as expressed by the Congress. If we use that bill as an example, excluding the impact of the Byrd amendment that transferred the $1.3 billion for counter-narcotics efforts in support of the President's program, we will see that the applied sequester in terms of budget authority is reduced overall from $12.9 billion to $7.4 billion.

Even with the application of the special rules, we find ourselves with a post-sequester fiscal year 1990 program of $288 billion, which is $7.6 billion below the 1990 budget request. At this point, Mr. Chairman, if you will indulge me, I have an accounting breakout that looks at the Senate appropriations bill as passed by the Senate and notionally lays out exactly how the sequester would be applied by every account if that bill were to become law. Since it is the only one that matches the 302 targets in the budget resolution, it is the only one that has a notional comparison as to what we could do here.

Chairman NUNN. Could I interrupt you just a minute? You gave the difference between the notional Gramm-Rudman-Hollings and budget authority and what it will really be. Could you give us the same numbers—could you repeat those numbers, and also give us the same numbers in outlays?

Mr. O'KEEFE. Yes, sir. Again, against the baseline, the amount for fiscal year 1990 is $12.9 billion, and there is another $1.7 billion applied against the unobligated balances appropriated in prior years.

Chairman NUNN. That is budget authority?

Mr. O'KEEFE. Yes, sir. Compared to that, the amount in outlays is $7.8. The most commonly-used number that you have seen kicking around is $8.1 billion. The left-hand side of the chart is budget authority, the right-hand side is outlays.

The most common number that has been recited repeatedly in the press documentation as well as other areas is $8.1 billion in outlays, and again, the $7.8 is what is unique to Defense, which is function 051. The balance affects the Department of Energy, which is the other slice of the 050 function.

Now, Mr. Chairman, you asked for another calculation?

Chairman NUNN. Well, I am just trying to get in my mind what the numbers are.

In other words, one way to express it that the public might understand is the notion that the Gramm-Rudman-Hollings sequester is going to require Defense to cut $12.9 billion in budget authority, and the notion is that the Gramm-Rudman-Hollings sequester is going to require defense to cut $7.4 billion in outlays.

Is that right so far?

Mr. O'KEEFE. Against the Gramm-Rudman-Hollings baseline.

Chairman NUNN. Against the Gramm-Rudman-Hollings baseline. But the reality is that it is going to be $7.8 billion in budget authority and $5.3 billion in outlays if we get an appropriation bill, and based on your assumption of what that will be.

Mr. O'KEEFE. If it is based on the bipartisan summit agreement and the budget resolution as enacted, yes, that is correct.

Chairman NUNN. So, looking at it from an actual savings point of view, which is what the Gramm-Rudman-Hollings sequester is supposed to do, there is $2.1 billion less in savings and outlays than would appear to be, is that a fact?

Mr. O'KEEFE. Well, your math is correct. The difference is that the assumption in the GRH rules is that you are attempting to accomplish, by either sequester or enactment of appropriation and revenue bills, the amount required in the sequestration.

What has occurred in the bipartisan summit agreement, the budget resolution, is an agreement for defense which is actually below the level of the Gramm-Rudman-Hollings baseline.

Chairman NUNN. So some cuts have already been made?

Mr. O'KEEFE. Yes, sir.

So, definitionally, once you enact the appropriations bill in compliance with the resolution, you have accomplished a portion of the amounts required under the sequestration. But this cut——

Chairman NUNN. This Gramm-Hollings sequestration, right now, it is fair to say, not counting on what has gone on before, is saving $2.1 billion less than would appear on paper?

Mr. O'KEEFE. Well, I am about to get to that, because it gets worse. The sequester against the continuing resolution, which we are living with right now, is that third bar. And that is the only law that is existent at this point that we can sequester against, and so that is what we are doing.

Chairman NUNN. Okay, go ahead.

Mr. O'KEEFE. Although the special rules may serve to reduce the applied sequester against the appropriation cuts, the reductions differ from account to account. And that is what I hope is displayed in the accounting charts that I have asked be inserted in the record.

There is another special rule, or an aspect of the special rules, that is particularly important in applying this. The law is very specific that if there is any amount sequestered from any appropriation account which would create an account balance lower than what existed nominally in the baseline that account becomes exempt.

So, what occurs is that the computer keeps generating a percentage based on all the special rules, and you do not know how those are calculated until the actual appropriations bill is enacted and you can sequester from that.

Under the baseline, the sequester against the military personnel accounts would be $3.4 billion. Under the Senate appropriations example we just used, which is in compliance with the budget resolution, $3.2 billion would still be required to be sequestered. Final appropriations outcome from the conference will dictate the actual cut.

Now, as I alluded to a minute ago, Mr. Chairman, at the present time we are calculating the sequester based on a full year continuing resolution, which is the only spending authority we have pending enactment of the 1990 Appropriations Act itself. We have constructed the CR by using the lower of the House and Senate values for each account, in accordance with the law, as specified.

On this basis, we have the lowest applied sequester, which is $6.1 billion. But we also end up with the lowest fiscal year 1990 program, which is $278.2 billion. That is that far column there, starting off with a continuing resolution baseline right now of $284.3 billion. When you apply the rules of sequester as they should be against that enacted law, the level is $278.2 billion.

Under the terms and conditions of the CR, that applies until November 15.

To the right of the far column is $280.8 billion in outlays versus $275.8 billion. So it is fair to say that, at exactly this moment in time, we are spending as if the enacted level for defense is $278.2 billion. And that is where we are at this stage of the game.

Overall, in terms of the continuing resolution itself, it represents a reduction of $17.4 billion from the 1990 request, and would result in a program which is $12 billion below the 1989 actual enacted appropriations level.

This is the worst-case scenario for defense, and it assumes that a continuing resolution will last all year at the current rate and that the sequester is applied against it. That is the only thing we can deal with, because that is the only law that is in existence at this point.

In terms of the impact itself, the sequester will have a significant impact on defense operations. And there is no way, short of passing a reconciliation bill and appropriations bills that could become law and cancel the sequester, that the impacts can be avoided.

In addition to military personnel cuts, the civilian personnel strength will be affected, potentially requiring furloughs and/or reductions in force, to achieve the required savings. And this is especially true in the defense agencies, where civilian pay represents the preponderance of the accounts, and thus there is little flexibility for non-personnel costs.

Reductions in the operations and maintenance accounts will cause immediate readiness impacts, as essential repair and maintenance activities are deferred.

But our biggest problem is in the military personnel accounts themselves. If the sequester on the military personnel accounts is allowed to stand, we could be forced to cut in excess of 170,000 in end strength in 1990. Sequesteration, as you know, hits the personnel accounts hardest because so little real flexibility exists to reduce costs without reducing people. And the time required to manage the reductions magnifies the number of people to be reduced to gain a given amount of savings.

As we saw above, the special rules under the Gramm-Rudman-Hollings law do not give us help here, because mathematically every appropriation account for military personnel spending is in excess of the levels that were appropriated in the previous year. There is no way to exempt those accounts using the special rules.

In addition, as the members are aware, the outlay or spendout rate against that budget authority is on the order of 98 percent. So every dollar you sequester in outlays, in turn, creates a dollar sequestration of budget authority in that area.

In 1987, Gramm-Rudman-Hollings amendments gave the President the authority to exempt military personnel, as you mentioned, Mr. Chairman, from the sequestration. At the time the decision of whether or not to exempt military personnel was being considered, before August 15, the calculations demonstrated that the sequestration of defense accounts would be 7.5 percent across the board, or 12.5 percent if military pay was exempt. So, at the time, the baseline was floating and there was absolutely no certainty of what the level was going to be.

In this particular circumstance, the Secretary was truly faced with Hobson's choice. He could recommend exempting military personnel, thereby avoiding the serious impact the sequester would have on the size of the force and its morale and stability. But to do that, he would have to increase dramatically the size of the sequester in the operations and maintenance accounts, for example, which would seriously threaten a return to the situation we faced in the late 1970s. And while exemption would preserve the number and the well-being of the people we have in the force today, we would not have the operating funds to fly the planes, steam the ships and exercise the tanks. Mathematically, at that stage in the game, looking at what the impact of sequester would be, the amount of the operations and maintenance reduction would have been doubled.

And if you permit me to, Mr. Chairman, I also have a little display that looks at what the differences would have been had we exempted military personnel at that time. And one key event that refers to this section here is the current notion that under the OMB baseline for GRH, we are required to sequester $3.8 billion in

operations and maintenance. That number would have just about doubled to $6.5 billion. So, theoretically, we could have ended up with sailors on the fantail and no place to steam off to, for lack of fuel.

Similarly, the increased reductions in the investment accounts would have largely destroyed any ability we might have to preserve any semblance of a sound economic approach to acquisition of weapons and equipment the military forces must have to remain effective in the near future. It will be a huge management challenge, to say the very least, to keep the currently computed sequester from substantially increasing the cost of acquisition systems and equipment through multi-year procurements and economic production rates.

Based on our preliminary assessments, again, given the fact that we do not have an enacted appropriations bill but are just looking at the speculation, if this lasts all year, we are expecting some contractual problem on the SRAM missile contract, the Titan IV, MILSTAR, the MX Peacekeeper program, DSP satellites, the ATA attack aircraft and the ATF fighter. It would have been patently impossible to avoid increased unit costs under a 12.5-percent sequester, which is what we were looking at in that pre-August 15 time frame.

Though we had learned shortly before August 15 that the sequester would be 4.3 percent instead of 7.5 percent across the board, the basic assumptions were unchanged, again, as the chart that I have asked be inserted demonstrates. We would have been looking at about another 25 percent in real budget authority that would have been sequestered had military personnel accounts been exempted—an additional $5 billion, roughly.

No matter how hard we look at it, the Department will have to absorb significant reductions under any sequester variation we have looked at. Our biggest problem with the sequester is the requirement that reductions be taken across the board, with no discretionary adjustments to mitigate the differing impacts of the reductions on individual programs, which is part of the Gramm-Rudman legislation itself. On October 19, the administration submitted an alternative sequester plan for defense under the terms of Gramm-Rudman-Hollings. Since we had no appropriations at that time, and since the bills that were passed by the two Houses were so different, we could not put together an alternative sequester with a coherent, detailed plan, showing how we wished to shift the sequester to ameliorate the most serious impacts.

If we had had an enacted appropriations bill on that date, there may have been an opportunity to develop or devise a different plan, which we could have used the fast-track procedures allowable under the Gramm-Rudman-Hollings legislation to propose as an alternative. But, in the absence of that, there is no basis upon which you can develop the numbers to support that. We asked instead for the increased transfer authority to allow us to move budget authority within the defense budget to reduce those impacts.

Chairman NUNN. Now, would you let me just clarify that?

Your transfer authority each year normally is what, $3 billion?

Mr. O'KEEFE. Yes, sir, as of 1989.

Chairman NUNN. And that is what is subject to what we call reprogramming?

Mr. O'KEEFE. Yes, sir. All four committees of oversight——

Chairman NUNN. Everybody has to sign off on it. What you are asking is to increase that from $3 billion to $7 billion?

Mr. O'KEEFE. $6 billion, sir.

Chairman NUNN. $6 billion. So you are asking to double your transfer authority?

Mr. O'KEEFE. Yes, sir.

Chairman NUNN. But the transfers themselves would each have to be approved by the four committees?

Mr. O'KEEFE. Positively. The provision that has been submitted, that the President forwarded, is specific to cite the provision of law which requires the advice and consent of all four committees, which has been the standing practice for reprogramming procedures between the Department and the four oversight committees.

So, yes, sir, you are absolutely right.

Now, at this present point, the request has not been acted on in the Senate. In the House, it is currently pending on the calendar.

I cannot begin to quantify the potential impact of the sequester on the morale of the men and women who serve in the Armed Forces. There is no way we can expect them to understand what leads to the situation we are now facing for fiscal year 1990. We now face the huge task of managing the sequester reductions, and it will do damage to the proper balance of people, readiness and modernization. And, as painful as that was, the Secretary selected the least damaging alternative.

The Department needs the tools to effectively manage national defense resources under conditions of the sequester, and the Congress can provide us with those tools.

First, we need the 1990 Defense appropriations bill enacted. Due to the differences between the Houses this year, we do not yet have a good understanding of our position at the account and the program, project and activity level. That makes it very difficult to specifically address the impact of the GRH sequestration itself.

Second, the Congress can approve the request for additional transfer authority, as you mentioned, Mr. Chairman. The additional flexibility available through the increase in transfer authority is essential to allow us to offset some of the most severe impacts of sequestration. The flexibility will maximize the options the Secretary can consider to manage the sequestration which, again, is the law of the land, and the Secretary will abide by it, no matter how painful that may be.

And I thank you, Mr. Chairman, for your time.

[The prepared materials of Mr. O'Keefe follow:]

PREPARED STATEMENT OF THE DOD COMPTROLLER, SEAN O'KEEFE

Mr. Chairman, members of the committee. I would like to express the Department's appreciation for the support offered by this committee and by the Senate Appropriations Committee for the President's fiscal year 1990 Defense program. I appreciate the opportunity to return to the Senate's familiar surrounding but it is with mixed emotion by virtue of the difficult topic to be discussed today.

The President has announced that the administration is prepared to accept a sequester under Gramm-Rudman-Hollings rather than to accept a reconciliation bill that does not achieve real deficit reductions. A sequester under G-R-H has not been

effected since 1986, when a limited sequester occurred. Although we remain hopeful that the Congress will still be able to pass a reconciliation measure that can be signed, we must now seriously plan for the eventuality that we will be forced to operate for the rest of fiscal year 1990 under conditions of a sequester. It is the law of the land and the Secretary intends to comply with the law however painful that may be.

The final sequester order published by OMB directed a 4.3-percent reduction to each program, project, and activity in the National Defense function. Since we do not have final appropriations for the year, the actual reductions will be somewhat different than those published by OMB in the final order. The calculations are complicated but let me walk you through them using this chart.

CHART 1.—G-R-H IMPACT IN FY 1990 ON DOD (051)

[In billions of dollars]

| | GRH baseline | | | SAC* | | | CRA | | |
|---|---|---|---|---|---|---|---|---|---|
| | Base | Seq | Net | Bill | Seq | Net | Bill | Seq | Net |
| Budget authority | 298.2 | 12.9 | 285.3 | 295.4 | 7.4 | 288.0 | 284.3 | 6.1 | 278.2 |
| Outlays | 281.8 | 7.8 | 274.0 | 283.6 | 5.3 | 278.3 | 280.8 | 5.0 | 275.8 |

*Excludes the impact of the compromise on the Counternarcotics Program.

BASELINE

First, based upon the baseline calculated in accordance with the G-R-H law, the National Defense function takes an outlay sequester of $8.1 billion. Of this, $7.8 billion is attributable to the Department of Defense itself. To achieve this outlay reduction, budget authority reductions of $12.9 billion are required. In addition, $1.7 billion in unobligated balances will be sequestered. If such a baseline were actual appropriations, we would be left with fiscal year 1990 DOD budget authority of $285.3 billion.

APPROPRIATIONS WITH SPECIAL RULES

The G-R-H baseline is only theoretical, however. The account by account sequester calculated under this baseline must be applied against the actual appropriations, which we do not yet have. And, under the 1987 amendments to the G-R-H Act, if appropriations are passed after the effective date of the final sequester order, October 15, then any appropriation reductions must be taken into account when determining the actual, or applied, sequester. The Senate appropriations bill meets the budget resolution and its 302(B) calculations comply with the summit levels. If we use the Senate-passed appropriation bills (excluding the impact of the Byrd amendment) as an example, we can see that the applied sequester, in terms of budget authority, is reduced from $12.9 billion to $7.4 billion. Even with the application of these special rules, we find ourselves with a post-sequester fiscal year 1990 DOD program of $288 billion, $7.6 billion below our fiscal year 1990 budget request.

Although the special rules may serve to reduce the applied sequester for appropriations cuts, these reductions differ from account to account. Under the baseline, the sequester against the military personnel accounts would be $3.4 billion; under the Senate appropriations bill, $3.2 billion would still be required to be sequestered. Final appropriations outcome from the conference will dictate the actual cut.

CONTINUING RESOLUTION

At the present time, we must calculate the sequester based on a full year continuing resolution, which is the only spending authority we will have pending enactment of fiscal year 1990 appropriations. We have constructed the CR by using the lower of the House and Senate values for each account in accordance with the law. On this basis, we have the lowest applied sequester, $6.1 billion, but we also end up with the lowest fiscal year 1990 program, $278.2 billion. This represents a reduction of $17.4 billion from our fiscal year 1990 request and would result in a program which is $12.0 billion below our fiscal year 1989 actual appropriation. This is the worst case scenario for defense.

IMPACTS

A G-R-H sequester will therefore have a significant impact upon defense operations, and there is no way, short of passing reconciliation and appropriation that can become law and cancel the sequester, that these impacts can be avoided.

In addition to military personnel cuts, civilian personnel strength will be affected, potentially requiring furloughs and/or reductions in force to achieve the required savings. This is especially true in the Defense agencies, where civilian pay represents the preponderance of the accounts and thus there is little flexibility to cut nonpersonnel costs. Reductions in the operation and maintenance accounts will cause immediate readiness impacts as essential repair and maintenance activities are deferred.

But our biggest problem is in the military personnel accounts. If the full sequester of the military personnel accounts is allowed to stand, we could be forced to cut up to 170,000 in end strength in fiscal year 1990. Sequestration, as you know, hits the personnel accounts the hardest because so little real flexibility exists to reduce costs without reducing people, and the time required to manage the reductions magnifies the number of people to be reduced to achieve a given amount of savings. And, as we say above, the special rules of the G-R-H law do not give us any help here.

The 1987 G-R-H amendments gave the President the authority to exempt military personnel from sequestration. At the time the decision whether or not to exempt military personnel was being discussed, before August 15, the calculations showed that the sequestration of defense accounts would be 7.5 percent across the board, or 12.5 percent if military pay was exempt. The Secretary was truly faced with Hobson's choice. He could recommend exempting military personnel, thereby avoiding the serious impact that a sequester would have on both the size of the force and its morale and stability. But to do that, he would be increasing dramatically the size of the sequester to be applied to the other accounts. A 12.5 percent reduction in the operations and maintenance accounts, for example, would seriously threaten a return to the situation we faced in the late 1970's. Exemption would preserve the number and well-being of our people, but would not have the operating funds to fly the planes, steam the ships, and exercise the tanks. The impact on force effectiveness of such a situation could not be dismissed and the mission of the Department would be impaired.

Similary, the increased reductions to the investment accounts would have largely destroyed any ability we might have to preserve any semblance of a sound economic approach to acquisition of weapons and equipment the military forces must have to remain effective in the near future. It will be a huge management challenge to keep the currently computed sequester from substantially increasing the cost of acquisition of systems and equipment through multiyear procurements and economic production rates. Based on our preliminary assessments, we expect contractual problems on the SRAM Missile, Titan IV, Milstar, Peacekeeper, DSP satellites, ATA, and ATF. FIT would have been patently impossible under a 12.5 percent sequester. Though we learned shortly before August 15 that the sequester would be 4.3 percent instead of 7.5 percent the basic considerations were unchanged.

No matter how we look at it, the Department will have to absorb significant reductions under a sequester. Our biggest problem with the sequester is the requirement that the reductions be taken across-the-board, with no discretionary adjustments to mitigate the differing impacts of the reductions on individual programs. On the 19th of October the administration submitted an alternative sequester plan for defense under G–R–H. Since we had no appropriations at that time, and since the bills passed by the two Houses were so different, we could not put together an alternative sequester with a coherent, detailed plan showing how we wished to shift the sequester to ameliorate the most serious impacts. We asked, instead, for increased transfer authority to allow us to move budget authority around within the Defense budget to reduce those impacts. Our request has not yet been acted upon.

I cannot begin to quantify the potential impact of the sequester on the morale of the men and women who serve in our Armed Services. There is no way we can expect them to understand what leads to the situation we are now facing in fiscal year 1990. We now face a huge task in managing the sequester reductions in a manner which will do damage to the proper balance of people. Readiness, and modernization—and the Secretary selected the least damaging alternative. The Department needs the tools to effectively manage national defense resources under conditions of a sequester.

The Congress can provide us with those tools. First, we need our final fiscal year 1990 appropriations. Due to the differences between the two Houses this year, we do not yet have a good understanding of our position at the account and PPA level.

This makes it very difficult to assess the impact of the G–R–H sequestration. Second, the Congress can approve our request for additional transfer authority. The additional flexibility available through the increase in transfer authority is essential to allow us to offset some of the most severe impacts of sequestration. This flexibility will maximize the options the Secretary can consider to manage under the sequester which, again, is the law of the land, and the Secretary will abide by it however painful that may be.

# ALTERNATIVE FY 1990 FUNDING LEVELS

($ BILLIONS)

| | FY 89 ENACTED | FY 90 REQUEST | FY 90 SAC* | SAC W/SEQ* | FY 90 CRA | CRA W/SEQ |
|---|---|---|---|---|---|---|
| 051 TOTAL | 290.2 | 295.6 | 295.4 | 288.0 | 284.3 | 278.2 |
| CHANGE FROM FY 89 | | +5.4 | +5.2 | -2.2 | -5.9 | -12.0 |
| REAL GROWTH | | -1.4% | | -3.9% | | -7.2% |

* EXCLUDES THE IMPACT OF THE COMPROMISE ON THE COUNTERNARCOTICS PROGRAM.

NOTE: POST-SEQUESTER INCLUDE THE EFFECT OF SPECIAL RULES UNDER GRH.

# ALTERNATIVE FY 1990 FUNDING LEVELS
($ BILLIONS)

| | FY 89 ENACTED | FY 90 REQUEST | FY 90 SAC* | SAC W/SEQ* | FY 90 CRA | CRA W/SEQ |
|---|---|---|---|---|---|---|
| 051 TOTAL | 290.2 | 295.6 | 295.4 | 288.0 | 284.3 | 278.2 |
| MILITARY PERSONNEL | 78.3 | 79.2 | 78.8 | 75.5 | 78.8 | 75.5 |
| OPERATION & MAINTENANCE | 85.4 | 90.2 | 87.2 | 85.7 | 86.7 | 85.3 |
| PROCUREMENT | 79.9 | 78.8 | 83.8 | 82.0 | 76.1 | 75.4 |
| RDT&E | 37.7 | 39.5 | 37.7 | 36.9 | 35.4 | 34.7 |
| MILITARY CONSTRUCTION | 5.7 | 4.8 | 4.8 | 4.8 | 4.8 | 4.8 |
| FAMILY HOUSING | 3.3 | 3.2 | 3.2 | 3.1 | 3.2 | 3.1 |
| OTHER | -0.1 | -0.1 | -0.1 | -0.1 | -0.7 | -0.7 |

* EXCLUDES THE IMPACT OF THE COMPROMISE ON THE COUNTERNARCOTICS PROGRAM.

NOTE: POST SEQUESTER INCLUDES EFFECT OF SPECIAL RULES UNDER GRH.

Chairman NUNN. Thank you very much, Mr. O'Keefe. We will have our normal time rule. I am going to start my questions with the Army and move through each of the services.

And, gentlemen, I would like each of you starting with General RisCassi to give me your personal views about the effect of the sequester on the U.S. Army as you understand it now, as you understand it being implemented. What would be the effect on it if it is fully implemented and stays into effect for a year? Your personal views.

General RISCASSI. As we currently view the sequester——

Chairman NUNN. Could you pull that mike a little closer General.

General RISCASSI. The effects on the manpower, on the Active component would be about 62,000 that would have to be taken out of the structure, and the way we would go about doing that would be 56,000 would come out of new accessions plus 4,000 enlisted in service losses. To put that in a relative base for you—during this fiscal year we planned on assessing 119,000 soldiers. The remainder of the cut, the 1.8 thousand would come out of the officers' strength.

So, the effects, besides the Active component, would be rather significant on the Reserve component side. The totality of the cut would be 14,000 in the Reserves and 20,000 in the National Guard and then we would have to take civilian end strength in the Army down by about 44,000. So, that's the effect of mechanically applying the rules of the sequester on the Department of the Army.

Chairman NUNN. What would be the effect in terms of the Army's program and morale of the Army in your personal opinion of those cuts?

General RISCASSI. I think when you look at how one would apply those cuts—in other words, rather routinely—you could say we would not assess the number of soldiers into the force during this fiscal year.

The totality of that impact would start in 1991 because arrival of new soldiers coming out of the training base and being assessed into a division or a post camp and station would be sometime downstream. The equivalency of these cuts in combat power would be three divisions. In other words, a division force equivalent cut of taking out that many soldiers could have an effect of taking three divisions out of the structure.

Chairman NUNN. General Hatch, I will ask you the same two questions. The effect to the Air Force of the sequester if implemented for a full year as it now is envisioned and also your opinion, your personal views as to how this would affect your own branch of the service.

General HATCH. Mr. Chairman——

Chairman NUNN. And if you could pull the mike up, you have to talk right into these mikes.

General HATCH. As Mr. O'Keefe said, the computations have yet to see the effect of an appropriations bill, and so the numbers that I am giving you are approximate, but the military personnel account in the Air Force is the heaviest hit.

If we apply a full year's sequestration, the active duty military would have to be reduced 80,000 by next October. In terms of the

Guard and Reserve, it is approximately 7,000 or 8,000 in the Guard and 5,000 in the Reserve. We have not discussed civilians. They are in the O&M account.

Chairman NUNN. When you say you have not discussed them, do you mean you do not know those numbers yet?

General HATCH. I did not discuss them in terms of the MPA account. If you want to talk about the O&M account, we are going to have significant reductions in that account as well, and the Air Force would be looking at approximately 26,000 civilians.

Chairman NUNN. Would they be laid off or RIF'd or furloughed or what?

General HATCH. We would put a hiring freeze into effect and have some of that underway at the present time.

We would also be forced to furlough and take other actions to reduce the numbers by 26,000 by the end of the fiscal year to meet the cost requirements.

Chairman NUNN. What is your personal view of the effect of this on the military capability of the Air Force?

General HATCH. It means about a 14-percent cut in the active duty military, and you cannot do that to a military organization in the course of 10 months without having drastic effects. We will have to stop PCS moves. We will——

Chairman NUNN. PCS being permanent change of station?

General HATCH. Permanent change of station. We will deny reenlistments, we will reduce accessions as the Army has stated. All of those things are quite damaging to the force.

Obviously what we need is a consistency of policy with regard to people. They are our most important resource, and we need to take care of them.

Chairman NUNN. Admiral Edney, would you give us the effect on the Navy in terms of numbers and then your personal view about the impact on the Navy's military capability.

Admiral EDNEY. Yes, sir, Mr. Chairman.

First of all, when I give the numbers, they will be worst case numbers, which is the only way that we can deal with the problem. Once we get the top line or the appropriations bill and understand what the authority is, if any is available, we will do everything in our power to minimize the impact on our people.

If you had to execute mechanically as my associates have described, you are talking about 76,000 end strength loss, which will be broken up between officer and enlisted, probably looking at in the area of 74,000 and 2,500 as a guess right now and 6,500 in the Reserves. Those are the types of numbers we are talking about.

Now, the impact is obviously significant. If we were required to do something like that, there is no other way you can describe it. We have been down this lane before 2 years ago, and so we know what the impact is on the Navy of doing such things as delaying promotions, delaying permanent change of station after a sailor has been on sea duty for 5 years, and you cannot move him because the funds are not there. The delay of accessing people from the ROTC programs when they graduate in June, and you cannot take them into the services, those are the types of impacts we are talking about.

I would certainly want to make a strong plea that when we find out what the ultimate judgment is of the bottom or top line, then we intend to do everything to preclude and minimize those so that it would be our desire that we be provided the maximum amount of flexibility which was entailed in Mr. O'Keefe's request for additional transfer authority.

So that as an example in the Navy as we look at it right now, the O&M account is not triggered by Gramm-Rudman. We just need to have the flexibility when we find out what has to be done to comply with the law to protect our people.

I would like to remind in which is in our—we should keep in mind when Marshall Akhromeyev came over here and we took him aboard the carrier *Kennedy,* he was in awe and keeps coming back that the difference that he could not explain was the performance and the trust and the confidence that we place in our enlisted people and the jobs that they do and the responsibility and accountability that we hold them for.

Well, we are now talking about the requirement to maintain that confidence and the faith and trust that we place in those people. They also place a faith and trust in us, and we intend to do everything in our power to keep our people and the quality of life of our people and the commitment we have made to them, particularly in a volunteer Armed Force.

And so, that is a summary of the difficult situation we are in, sir.

Chairman NUNN. What will it do to your ability to maintain the ships that you have? Will you have to pull any of them into port and simply take them out of the fleet for the time being until you can remedy the situation?

Admiral EDNEY. That is difficult to give you a straight answer right now because as you know, we in the past have thinned out the shore establishment. So, we are at a point where you really cannot thin that shore establishment out any longer.

So, when we find out what the total magnitude of the challenge is, then we will be coming in with that. But I could not give you an answer on that now.

Chairman NUNN. Thank you. General Went, my time has expired. If the committee could let me get through this one round, I think we will hear from all of them. General Went.

General WENT. Sir, our impact is not unlike that expressed by my colleagues. In our case, we are somewhat unique in that we have had declining O&M and procurement budgets over the last 3 or 4 years. Neither the O&M nor the procurement accounts are affected because the budgets are below the OMB sequester base line, and so our total impact is taken in the military manpower accounts.

Now, that would result in us having to take down about 11,000 in end strength, roughly 1,000 officers and 10,000 enlisted troops, and in the Reserve account about 850, a combination of enlisted and officers.

Now, the process of the management actions that we would have to take to do this sort of thing would be to increase retirements both in the officers and our staff NCOs, and that undoubtedly would require some selected early retirement boards.

So, essentially telling people to go home before they are expected to. It would result in lower augmentation opportunities; that is, bringing our Reserve officers into the Regular establishment. It would result in early release of about 14,000 marines in 1990, some up to 7 months early to get down to that 11,000 decrease in end strength.

We would rephase our enlisted accessions, decreasing our accessions by about 1,000 a month. We would have to reduce our PCS moves by 50 percent, and we would certainly have to cut our reenlistment bonuses and our critical MOS's.

Chairman NUNN. What will it do to the morale of your force?

General WENT. Well, it certainly would have a detrimental effect on the morale. I mean, we have got some social contracts with our marines, and when you begin to send people home earlier than they expect and when you begin to retire people earlier than they expect, that is going to have some impact. It is very hard to measure, but certainly it will.

Chairman NUNN. What about combat power? How would you assess the combat power?

General WENT. I would hazard a guess that in the course of the first year it would be somewhere in the neighborhood of a 10 percent reduction in readiness until we had an opportunity to build back up to a balanced force.

What taking the sorts of management actions needed to get the lower end strength does is to unbalance the force. That has a readiness impact.

Chairman NUNN. Thank you very much.

Senator WARNER. Mr. Chairman, this is the highest stakes poker game I have ever witnessed since I have been in the Senate. There is really, Mr. O'Keefe, no precedent for this.

You referred to 1986 and 1987, but in both of those instances it is my understanding the President exempted the personnel accounts.

Mr. O'KEEFE. Yes, sir, that is true.

Senator WARNER. The statements made by the four deputies here, the chiefs, are devastating in terms of the impact, in terms of degradation of the ability of these respective military departments to perform their roles and missions.

To what extent can you acquaint us with the process by which this decision was reached at the time the administration made the decision to go forward with the sequester order? Were the facts as revealed this morning known to the Secretary, and did the Secretary in turn relate them to the President and members of the Cabinet and so forth?

Mr. O'KEEFE. Yes, sir, at the time the decision was considered. Well, let me go back one step. In 1986 the amount of the sequester amounted to less than $5 billion, so it was a very small effort relative to what we are looking at today. So the comparisons are very, very difficult to try to make at this point.

As far as the process was concerned, at the time it was within the elected choice of the President to unilaterally make the exemption prior to August 15.

The Gramm-Rudman-Hollings baseline, as calculated by the Congressional Budget Office and by the Office of Management and Budget, appeared to be at a rate that would have required a 7.5

percent reduction across the board to all defense accounts, or 12.5 percent across the board to all accounts if military personnel were to have been exempted.

As a consequence, based on that data, at the time it was the conclusion reached by the Secretary that it made little sense to argue that we could exempt part of the Defense budget and, therefore, protect part of the process. Yet, the very mission of the Department itself would have been endangered by that approach because you would have had folks there but nothing to operate, nothing to steam with, nothing to fly with. In the process, you would also have the procurement or investment accounts completely decimated.

Senator WARNER. How soon do we anticipate the Secretary or the President, whatever the case may be, is going to come forward and inform the American public of the curtailment in the roles and missions now being performed in the coming fiscal year? What is the impact worldwide?

Really, this translates into our ability to continue our relationships with our allies, our forward deployed concept.

When is that going to be told to the public?

Mr. O'KEEFE. Upon the enactment of the Defense Appropriations Act, we will be able to calculate the precise impact of the sequester order. I am certain the Secretary will begin to evaluate the options he has at his disposal.

Senator WARNER. Have you been able to make some preliminary determinations? Could you tell us today roughly? Take, for example, the Navy. Does this mean we are going to eliminate a carrier task force in the Mediterranean where we have had two for many, many years?

Translate it in terms of our NATO forces.

Mr. O'KEEFE. I would not presume to foreclose the Secretary's decision process and what he will choose. But just to give you a notional example, to cut back 40,000 folks in the uniformed services would cut back an infantry division, a Navy carrier battle group and a carrier air wing, a Marine Corps infantry regiment, one F-15 and one F-16 tactical fighter wing, one C-141 squadron and one C-130 squadron. That would get you to 40,000 people. So multiply that times four and that is about what you would get.

Senator WARNER. Let us go to the question of the transfer authority. In view of the fact that the Senate does not view the legislative proposal as a valid alternative sequester under the Gramm-Rudman-Hollings test and is, therefore, not giving expedited consideration to the legislation, and further considering that the chairman of the House Budget Committee and others strongly oppose passage of the legislation which is viewed by some as permitting "special treatment" for defense, does the Department still expect to receive any relief in this area from the impact of the sequester?

Mr. O'KEEFE. We always have to remain hopeful, Senator Warner. [Laughter.]

I am finding that my optimism is beginning to shred a bit, but if that be the case and that is the judgment of Congress and if the sequester lasts all year, if reconciliation and appropriations acts are not enacted in agreement with the President's desires and we

have to live with the CR, we will find a way to survive with $3 billion. It is the law of the land. We have no choice.

Senator WARNER. If the personnel has been exempted and we retained the force structure, would we have had sufficient money to provide the basics—beans, blankets and bullets, the operating funds?

Mr. O'KEEFE. It was the Secretary's determination that we would not.

Senator WARNER. What do we do then? We have a top-heavy personnel structure and insufficient financing of the infrastructure; is that correct?

Mr. O'KEEFE. That was precisely the Hobson's choice he was faced with. If everybody stays in place, he cannot provide for the mission itself to operate, feed, provide and accomplish the very objectives of the charter.

Senator WARNER. Let me try one more. Assuming the sequester remains in effect for the full fiscal year, what actions have been taken to date to reduce military personnel levels?

Mr. O'KEEFE. I would prefer to defer to the vice chiefs on exactly what they have done, but the instruction the Secretary has sent out at this point is that we have not foreclosed any option of Congress until such time as the appropriations bills and the reconciliation act have been considered.

Having said that, we are operating now on a continuing resolution rate, in accordance with the law, of $284.3 billion, on which the post-sequester rate is $278.2 billion. That is the level of spending on which we are operating, because we have one enacted appropriations bill, and that is military construction. So at this present point, that is how we are operating, and we have asked everybody not to foreclose the option.

Senator WARNER. The delay has a compounding effect on the end result, does it not?

Mr. O'KEEFE. Absolutely. The longer we go, the more severe it gets.

Chairman NUNN. I think that point is what so many people do not realize is a very important point, Senator Warner, that you made. The longer you wait to implement this, the more people will be affected because it is less time you have to make the savings in the fiscal year.

I will defer to Senator Bingaman, but is it also true that if you were told to cut your force structure and you were given 2 years to do it, you could do it, even though you would not want to do it, in a way that would at least mitigate or minimize the damage to the morale? I would ask each of the vice chiefs.

I would say, to me, this is the worst possible way to be told to cut your force structure and the worst and most devastating possible way you could devise to treat the men and women in the military.

Would you agree with that, General RisCassi? If you are going to cut, to do it in the middle of the fiscal year is the worst way?

General RISCASSI. Absolutely. The unfortunate part, as you apply the mechanical rules and you have a short period of time to express that mechanic in terms of end strength, it does not interrelate to the national military strategy or any of the synergisms that

you have built over the last decade. So you, in effect, start fracturing areas that you have worked, say 10 years to build up.

So if you can take a full running year or 18 months or 2 years to draw down one soldier or several soldiers, it just makes it a lot easier, plus you do not fracture that interrelationship to the national military strategy.

Chairman NUNN. General Hatch.

General HATCH. I agree with your statement, Mr. Chairman.

Chairman NUNN. Admiral Edney.

Admiral EDNEY. I certainly agree that this is not the desired way to reduce forces and people. I think we all recognize the difficult decisions with which you are wrestling in the Congress and in the administration and that the likelihood of force level reductions is a reality. If you did it in a balanced manner, you would not impact the morale of our people, because if you reduce forces you reduce the people that go with those forces.

Chairman NUNN. General Went.

General WENT. I think you have expressed it very well, Mr. Chairman. In our case we could probably come down about 5,000 troops and do it in a balanced kind of way, but the sort of numbers about which we are talking would be very disruptive.

Chairman NUNN. Senator Bingaman.

Senator BINGAMAN. Thank you, Mr. Chairman. Let me see if I can just understand exactly the testimony.

The figures I wrote down here are that the Army would cut about 60,000, the Air Force about 80,000, the Marines 11,000 and the Navy 76,000. Together, those add up to about 227,000.

Mr. O'Keefe, how does that differ from the 170,000 that you cited?

Mr. O'KEEFE. It is dependent upon the phasing of when this occurs. I think Chairman Nunn mentioned as well, the earlier we make the decision and see the impact, the less you have to deal with.

I think the chiefs are assuming about a half year point in which we would actually start that conclusion. Our estimates are that if the Congress concludes before Thanksgiving, we will at least have some feel for where we are going.

Senator BINGAMAN. The 227,000 figure is a little over 10 percent of the total Active duty force?

Mr. O'KEEFE. That is about right.

Senator BINGAMAN. I guess what strikes me is that the administration says it can live with a sequester that will leave us at a level of 285,000, 288,000 or something like that.

What are we going to see as a proposed Defense budget for next year if we live with the sequester at 288,000? Does that mean we are still going to have the Defense Department coming in and asking for $320 billion next year?

What does this kind of a decision to live with a sequester, which is what I have heard, do to the expectations for what would be requested next year?

Mr. O'KEEFE. The comparison statistic, Senator Bingaman, is that $288 billion is again the level against the budget resolution post-sequester, assuming appropriation acts are enacted at that rate. $295.6 billion is the amount that was agreed to in the biparti-

san summit agreement this past May, and $311 billion is the number that is in the President's current plan for fiscal year 1991 to match his February State of the Union Address, a total of zero, 1 percent, 1 percent; 2 percent, 2 percent real growth for the 5-year plan.

In terms of the effect this would have on 1991, we are in the throes right now of just beginning the preliminaries on the 1991 budget scrub itself. We are trying to take into account the Authorization Conference which has recently been released, the Appropriations Conference which is still under way, and the actual impact. The factors are so compounding, I could not even begin to guess exactly how that is going to come out.

Senator BINGAMAN. It is fair to say, is it not, if you went from 288,000, did you say——

Mr. O'KEEFE. 288,000 to 311,000.

Senator BINGAMAN. What kind of percent increase is that? Six percent?

Mr. O'KEEFE. It amounts to about 5.5 to 6 percent.

Senator BINGAMAN. Would the administration expect Congress to agree with a 6-percent increase in defense this next year?

Mr. O'KEEFE. I cannot presume what the Secretary of Defense and the President may determine if this becomes the ultimate outcome this year.

Senator BINGAMAN. This figure is the new baseline from which we would calculate everything in the future if the sequester remained in effect.

Mr. O'KEEFE. Assuming enactment of the appropriations bill at a rate commensurate with the budget resolution targets, the answer is yes.

Senator BINGAMAN. Now, have you done a calculation as to what this new baseline does to your 5-year plan?

Mr. O'KEEFE. No, sir. That is just too mindboggling to contemplate at this time.

Senator BINGAMAN. You are suggesting we would have a 1-percent increase per year? I guess that is what the President has been planning on. If in fact we had a new baseline at this level, even assuming a 1-percent increase, I assume that would mean an additional $40 or $50 billion taken out of the 5-year plan.

Chairman NUNN. Let me just give you one figure that I have heard, and maybe Sean can correct it. Even absent the sequester, even if it had not occurred, to go from the President's proposed level of, I believe, 1/1/2/2 down to 0/0/0/0—in other words, to go to no real growth but holding where we are, which is what most people around here, at least I, feel is sort of the best case—that itself requires about a $110 billion cut in the 5-year defense plan as it now exists.

Mr. O'KEEFE. It is actually a touch higher, by a third, because the OMB on July 13 released a new mid-session review of its rate for inflation, which corrected the problem to which the Comptroller General testified this past spring. It adjusted the out-year inflation calculations more in line with what appears to be economic reality, about 3.5 percent in the out years. That has the effect of increasing the overall buying power requirements to adjust the top

line about $50 billion. So add another third to your statement and that is about right.

Chairman NUNN. I will not take it out of your time, but one other thing. From what I have gathered, the Office of Management and Budget projected outlay rates are different from the Gramm-Rudman-Hollings outlay rates and the CBO outlay rates. They are projecting higher outlay rates than are under Gramm-Rudman-Hollings. Is that right?

Mr. O'KEEFE. Yes, sir. As a matter of fact, I looked at this again last night in the hopes that I would never get into it, but now I am glad I did look at it. This is the effect of the so-called special rule on the one-half percentage point exemption. It's just a mindboggling calculation, but based upon the Gramm-Rudman law as amended in 1987, the requirement is that if outlays in any function of Federal spending increases by more than one-half of 1 percentage point, then any amount in excess of that may not be subject to sequester, and you adjust the baseline. So the direct answer to your question is yes, and the reason why the defense numbers have changed is because the outlay projections for 1990 are more than one-half of 1 percent in excess of the 1989 baseline.

Again, we are dealing with two fictional baselines which bear absolutely no relationship to actual spending.

Chairman NUNN. Another way of saying it would be the bad news is these cuts are going to be devastating. The further bad news is the deficit is going to be worse than we thought even with these, because the outlay rates are higher if OMB is correct.

Mr. O'KEEFE. Depending upon which set of statistics you want to believe; but again, outlay estimating is the closest thing to alchemy we have ever designed. [Laughter.]

Senator BINGAMAN. Let me ask one other question, just to summarize my understanding of what you are saying. Chairman Nunn indicated $110 billion was the figure if we went down to zero growth in the 5-year plan. You indicated another $50 billion because of the changes that needed to be made.

Mr. O'KEEFE. I would like to give you some precise numbers for the record, if I could, but it is on that order.

[The information referred to follows:]

DOD BUDGET (051) TOPLINE

[By fiscal year; dollars in current billions]

| | 1990 | 1991 | 1992 | 1993 | 1994 |
|---|---|---|---|---|---|
| Bush budget April 1989 | $295.6 | $311.0 | $322.0 | $335.9 | $349.8 |
| Percent real growth | 0 | 1 | 1 | 2 | 2 |
| Repricing—midsession inflation rates | (+$4.3) | +$6.2 | +$8.4 | +$11.2 | +$14.0 |
| Percent real growth | 0 | 1 | 1 | 2 | 2 |
| Alternative budget—zero real growth | $293.5 | $304.6 | $314.4 | $323.9 | $333.0 |
| Percent real growth | −1 | 0 | 0 | 0 | 0 |
| Change—alternative to Bush budget | −$2.1 | −$6.4 | −$7.6 | −$12.0 | −$16.8 |

The budget amendment submitted by President Bush in April 1989 proposed total spending for the Department of Defense of $1,614 billion over years fiscal year 1990–fiscal year 1994. In July 1989 OMB released its midsession report on the budget, which revised upward the underlying inflation rates used to price out the budget. The application of these new, higher inflation rates to the April 1989 Defense pro-

gram would require the addition of $39.8 billion in order to fund the same programs.

A zero-growth scenario is very much dependent upon the starting level used in calculating the program. If we calculate zero real growth over the appropriated fiscal year 1990 program, the program totals $1,569 billion, a reduction of $45 billion from the April budget. If, however, a sequester or partial sequester is sustained for fiscal year 1990, zero real growth over that post-sequester would require reductions of up to $75 billion from the April budget.

Senator BINGAMAN. Then if we do have a new baseline, which is required because of sequester, then that again would mean $40 billion or $50 billion over the 5 years. Is that a reasonable estimate or is that unreasonable?

Mr. O'KEEFE. I think I just fused on that one. What Senator Nunn is referring to is the actual top line totals that exist, that the President has published. If the Congress appropriates funding at that rate, that will be the consequence of a change to zero percent real growth, as he just expressed it.

The baseline itself I could not even speculate on where that is going to head. And so, to the extent that the top line, as Senator Nunn described it, and the OMB inflation change, as promulgated on July 18 in mid-session review, and an adjustment on the mid-session rates, as you have just suggested, the compounding of that effect, theoretically, could be as bad as you have just described.

But that would involve the contrivance of an awful lot of very remote events to occur.

Senator BINGAMAN. Let me ask one other question. This is maybe a little bit technical, but on reprogramming, you are asking for authority to do twice as much reprogramming as you presently have authority to do?

Mr. O'KEEFE. Assuming the sequester lasts all year, yes, sir.

Senator BINGAMAN. If the sequester remains in effect.

Mr. O'KEEFE. Yes, sir.

Senator BINGAMAN. Now, when you reprogram, you do not attempt to maintain the existing balance between outlays and budget authority, do you?

Mr. O'KEEFE. It is a one-for-one transfer of budget authority, independent of that issue, yes.

Senator BINGAMAN. As I understand what you are planning or what the various chiefs would plan, it would be essentially to take money out of procurement and try to reduce the impact on the manpower accounts, so that we would essentially be increasing outlays? If this new reprogramming authority were used, it would increase outlays to the extent that you shifted from procurement to manpower accounts and added to the deficit.

Mr. O'KEEFE. I would not argue that point as to that being a reality at all. I think——

Senator BINGAMAN. You would not disagree with it, is that what you mean?

Mr. O'KEEFE. No, sir, I disagree.

Senator BINGAMAN. Oh, you do disagree?

Senator O'KEEFE. Yes, sir.

There is no way, at this point, to be certain of what that impact would be, because of three reasons. First of all, until the enacted appropriations bill has occurred, God knows where it would transfer from, or to, for that matter.

The second issue is that the Secretary is going to be faced with these alternatives. To the extent that this lasts all year, he may yet have to make a decision on what the end strength would have to look like.

So, as a consequence, given the fact, as Senator Nunn mentioned and as you have alluded to, as to where the top line may be going, is it realistic to assume a $311 billion concurrence from Congress? All those things would weigh in. And he may yet elect to deal with some number above zero of how you deal with the end strength problem.

The third factor involved is that it would depend very heavily on what is exempt. As Admiral Edney mentioned a minute ago, under the current calculations, if you take the Senate appropriations bill and enacted it today, and applied the sequester against it, because of the strange nature of these rules, the Operations and Maintenance, Navy, account is exempt. You know, the rough order of magnitude of outlay rates to the budget authority in operations and maintenance is about 80 percent, versus 95-ish percent in the Navy personnel accounts.

So, to say that there would definitionally be an increase in outlays is presumptive of all those points, and I do not believe that is going to occur in the process of doing this. It presumes too many decisions in the process, and all of those factors need to be flushed out an awful lot over the next few months.

Senator BINGAMAN. Thank you very much.

Thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Bingaman.

Mr. O'KEEFE. Mr. Chairman, one last point. It presumes concurrence on the part of all four committees, too. I am sorry I missed that. Which this year, has been an interesting issue. We have submitted on the order of $6 billion worth of requests, and gotten about $2 billion worth of approvals. And so our rejection rate of sources we propose is on the order of 3 to 1.

Chairman NUNN. Well, after just being through a 2 month conference, what is going to happen if you come up here and say, in order to save *x* number of personnel, we want to cut back the number of F-14D's being——[Laughter.]

Mr. O'KEEFE. I have a feeling that would be a very popular issue. [Laughter.]

Chairman NUNN. It is kind of hard to imagine the House Armed Services Committee going along with that. Senator Gorton.

Senator GORTON. I have just one question. It is a follow-up to both the chairman and Senator Bingaman. I am going to ask each of you, from left to right, to assume not only the numerical cuts, which you have answered in response to the chairman, but to assume the implication of Senator Bingaman's question, that Congress, after it has gone through this very difficult situation, in a year, finds you down at that personnel level and decides in fiscal year 1991 and the future that that is an appropriate personnel level.

And I would ask you, with that assumption, when you have been able to accommodate yourselves to those personnel reductions, what does that mean in active or reserve divisions, air wings, ships

or task forces or the like? What would that new level of manpower mean to you if it were permanent?

General RISCASSI. Let me make a couple of assumptions. I have to assume that the sequestered base would be roughly about 4.3 percent. If I then ran the numbers in terms of the total end strength of the Army, and you asked me what the answer was in terms of division force equivalents, if I had to take it down, it would be three Active divisions, one Reserve National Guard division, and three Reserve brigades. That is the totality of 62,000 Active, 14,000 Reserves, and 20,000 National Guardsmen, in terms of force structure.

Senator GORTON. And what implications would that have for the Army?

General RISCASSI. Well, I think what you would do is you would have to look worldwide. You would have to condition your response based upon the Vienna talks and the conditions we have made to the Alliance. And you may come up with the answer that we are not going to look at Europe at this juncture, because of what it does to the CFE talks, and therefore, look into the CONUS base as the answer to your dilemma.

General HATCH. Senator Gorton, the initial impact of rolling these people out of the Armed Forces is that all of your units, essentially, worldwide go under strength. And then, as you plan, in the years that follow, to accommodate, in my case, to a smaller Air Force, under reduced Defense budgets, then we have to adjust the total force structure.

And as General RisCassi said, the variables in that computation include all of the arms control negotiations that are going on, both strategic and the conventional forces, as well as building to a 5-year program.

And until we have all of those pieces in place and see the appropriations bill that gives us the ultimate sequestration number, it is difficult to quantify it in greater detail.

Senator GORTON. Difficult, but do you not have something that is approximately where the General referred to in number of wings?

General HATCH. I do not have any numbers for you, Senator Gorton, but clearly tactical fighter wings would be reduced, bomber wings would be reduced, and the airlift forces would have to be reduced. And it would be a proportionate reduction in our attempt to keep a balanced force structure to meet out worldwide commitments.

Senator GORTON. Admiral.

Admiral EDNEY. Yes, sir, Senator. The supposed situation that you described, I cannot give you a direct answer, just as I could not give an answer to Senator Nunn's request for numbers of ships that you may or may not have to bring into port. Because the figures that I gave, as I mentioned, had to assume a worst case. That is, you have to assume that you have got to comply with the law and you cannot assume that the four committees of Congress will do, vis-a-vis the transfer authority.

So that was a worst-case figure.

We will do everything to minimize the impact on our people, but the question that you are asking, we have to interact with the CINC's, because we have got some worldwide commitments and al-

liances with our allies, and the NATO commitments, and we have also got a commitment to the increased war on drugs and the forces that we have been asked to put into the Caribbean.

With all of that taking place, we are going to have to find what the bottom line is and then come up with an answer that best meets the requirements that we have worldwide. And therefore, I feel confident that both this body and all of us in Government will work to the best interest of meeting those commitments. And to speculate how you will do the worst case, I could not give you an answer right off the top of my head, sir.

Senator GORTON. You clearly could not manage the same number of battle groups that you have at the present time?

Admiral EDNEY. It is clear that if we are talking taking 76,000 people out of the Navy, you cannot operate in the same manner that you are doing today, yes, sir.

Senator GORTON. General Went.

General WENT. Well, if Gramm-Rudman-Hollings is effective for the whole year, as I indicated, that would take about 11,000 troops out of our end strength.

If we assume for a moment, then, that we live with a similar sort of financial conditions, what does 11,000 troops equate to? It really equates to a brigade, or as we call it, a Marine air-ground task force.

And what is in a brigade? A regiment of infantry, a Marine air group, the combat service support group that is associated with it, and all the supporting elements. And associated with that would be some drawdown of the base support forces, if you let go of a brigade-size force.

So that certainly has some implications on our ability to meet our worldwide commitments.

Senator GORTON. Thank you.

Thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Gorton.

I believe Senator Levin is next.

Senator LEVIN. Mr. O'Keefe, I sit here a bit in disbelief I must tell you. At the beginning of this budget year there was a tremendous battle over a few billion dollars difference in the Defense budget number. It was a major, major issue between the Congress and the President.

Now we have the White House press secretary saying that sequester has some attractive benefits, we can handle it—the "it" being somewhere between $6 billion and $12 billion in authority and $5 billion and $8 billion in outlays, far more than was the subject of the major disagreement between the President and the Congress at the beginning of the budget.

The White House seems so casual about this now, and were so determined just a few months ago to have a few billion dollars more in the Defense budget. Is there a disconnect between the Defense Department and the White House here? You do not seem quite so sanguine about these cuts.

Mr. O'KEEFE. The Secretary of Defense advised the President and the officers at OMB of the impact of this particular effort, as I am sure every Cabinet official did throughout the Federal Government. On this basis, it was the President's determination that, on the

whole, for the entire Federal Government, he felt, as I understand it, that an unacceptable reconciliation bill was worse than the impact of sequester across the Federal Government.

That is the President's judgment, and I certainly would not presume to dispute that.

Senator LEVIN. Well, I can understand him phrasing it that way, but that is not the way the OMB Director and the White House press secretary talked. Fitzwater says sequester has some attractive benefits to it and we think we can handle it.

Now, next year, when there is a disagreement between Congress and the President over the budget number for defense, as there has been regularly every year, the difference comes down to a few billion dollars, what kind of credibility do you think the President is going to have next year when he argues for a higher defense number of a few billion dollars when this year he is saying we can handle somewhere between a $5 billion and $12 billion cut. What kind of credibility is there going to be next budget season?

Mr. O'KEEFE. The presumption of your comment, Senator, I think, is that this entire discussion is about the effect on defense exclusively, in terms of the reconciliation versus sequestration. Since it affects the entire Federal Government and it applies across the board to every domestic agency and to the same extent and breadth as it does the Defense Department, I just do not know how that assumption can be made.

I think if you were specifically relating this issue to the credibility of the administration on defense matters exclusively, certainly there is a point to be made for what you are saying.

Senator LEVIN. This hearing is about defense. This hearing is not about those other budgets. This hearing is about defense and the impact of sequestration on defense. You, gentlemen, are telling us, as I understand it, that the impact is severe.

Mr. O'KEEFE. It is going to be very difficult, yes, sir.

Senator LEVIN. Well, that is what I gather from the testimony here. I mean we are talking a 10- to 14-percent cut in manpower, I gather, across the board here. And it has been described by you as a severe impact. And yet we have the White House saying we can handle it.

Now, all I am saying is there has got to be some kind of a disconnect, it seems to me, when the Secretary of Defense, as you phrased it, described the impacts to the White House—did he describe them in numbers or did he describe them in conclusions? Did he say these are severe impacts; we cannot handle this; this is going to have a major impact on the defense of this country? Is that what the Secretary of Defense said?

Mr. O'KEEFE. Not having been at the White House at that session with him, he said he described it in numerical terms as well as what his assessment of the impact could be.

Senator LEVIN. Could you give us that assessment? Does he consider this to be a severe impact?

Mr. O'KEEFE. Yes, sir, he does, and it was for that reason that he requested of the President the authority to send over the alternate sequester proposal on October 19, and the President sent that and the Congress has had that pending now for the past several weeks.

But it was on the basis that he argued the position that if we are forced to live with this all year we need the flexibility to manage it, and if it is the determination of the President to do it, and if it is Congress' will that it last all year, then that is the law of the land and the Secretary of Defense intends to abide by it. But he requested the flexibility to live within the law.

Senator LEVIN. Did the Secretary of Defense recommend that personnel be exempt, or partially exempt?

Mr. O'KEEFE. No, sir, he did not.

Senator LEVIN. Either fully or partially?

Mr. O'KEEFE. No, sir, he did not.

Senator LEVIN. Do you know whether he has the authority, under Gramm-Rudman, to recommend a partial exemption, or is it all or nothing?

Mr. O'KEEFE. I believe—well, as a matter of fact, since the Parliamentarian of the Senate has determined that the request that was made by the President on October 19 did not meet the intent of the law, I would be hard-pressed to speculate on what other parameters the Parliamentarian may also determine not to be within the intent, and so I am not sure that I can answer that one directly.

Senator LEVIN. Did the Joint Chiefs recommend exemption?

Mr. O'KEEFE. I will let them speak for themselves. It is my understanding they did advise the Secretary on the point and I will defer to them.

Senator LEVIN. Could I get a quick answer on that?

General RISCASSI. We did not exempt manpower.

General HATCH. It was not our expect—and I am not speaking for the Secretary of the Air Force as I was not in the same meetings that he was in. It was not my expectation that if a sequestration was put in force that the military personnel accounts would have been totally exempted. On the other hand, we surely need the transfer authority.

Senator LEVIN. Do you know whether or not the Joint Chiefs—your Chief recommended exemption of personnel accounts, partially or fully?

General HATCH. I do not know the answer to that, but I think his view is exactly as I have stated it.

Senator LEVIN. Do you know, Admiral?

Admiral EDNEY. My understanding, and I discussed this this morning, was that in that specific way it was not addressed. What was addressed is, we were trying to follow this bouncing ball.

When it became the reality that if you fenced the account in some cases—remember that I mentioned earlier that for the uniqueness of the bill the Navy O&M account was exempt and so if you have to absorb the total account then we were getting up around 12 to 13 percent to cover exempting.

So in that case we were looking for a balance and what we were pleading for was the flexibility through transfer authority to protect our people while we comply with the law.

Senator LEVIN. My time is up.

Chairman NUNN. Thank you, Senator Levin. Senator Exon.

Senator EXON. Mr. Chairman, thank you very much. Gentlemen, let me proceed along the lines of the questioning that you just heard from Senator Levin.

I notice in your statement, Mr. O'Keefe, that you said, and I quote, "rather than accept a reconciliation bill that does not achieve real deficit reduction, which was the reason that the President has made the statements that he has made with regard to accepting the sequester," and then you go on to say that "the Secretary intends to comply with the law, however painful that may be."

I happen to feel that it would be absolutely devastating if the sequester cut goes into effect. That was one of the reasons why I was one of 23 that stood up on the floor of the U.S. Senate when this Gramm-Rudman-Hollings mess was first thrust upon us. I said then that we could be facing a situation where 25 percent of the budget would have to take all of the budget cuts to meet the phantom goals of Gramm-Rudman.

Well, it has now come home to roost. It has come home to roost to the extent that the President of the United States himself, the great defender of America, has said that he would rather go along with the sequester. I happen to dismiss that as political rhetoric on the part of the President, but that has nothing to do with what you are about here today.

Now, I want to ask this question: How serious have the Armed Forces been in getting together and opposing this? Senator Levin asked you several questions about what actions the Secretary of Defense took. What did he do and what did he say?

I listened with keen interest to your replies to that. I recognize that you cannot be privy to everything that went on in those discussions. Let me ask this question: did any of you meet with and discuss the severe cuts to our defense structure with your civilian counterparts, the Secretaries of the various branches of the services? Did you actually meet with them and talk with them? I am talking primarily to the officers.

General RISCASSI. The answer is yes, sir.

Senator EXON. You did?

General RISCASSI. Yes, sir.

General HATCH. Yes, sir.

Admiral EDNEY. Yes, sir. We had numerous discussions on that difficult subject.

Senator EXON. Did the Secretaries feel as concerned about this as members of this committee have expressed today? Do you think you convinced them to raise their voices above a dull murmur to object to this?

General RISCASSI. I think the Secretary of the Army is fully apprised and cognizant of the significance of the cut, as I have outlined it today, in the absence of any transfer authority and what that would do to the totality of the U.S. Army.

Senator EXON. What about the Secretary of the Air Force?

General HATCH. I think the Secretary of the Air Force is fully informed on the implications of the subjects that we have been discussing today, Senator Exon.

Senator EXON. Do you believe that he forcefully made that presentation to the President of the United States in his role as Secretary of the Air Force?

General HATCH. As I said earlier, I did not attend the same meetings he has, but in every meeting that I have attended with him he has been very forceful in pointing out the limitations that would involve the Air Force under these kind of cuts.

Senator EXON. Admiral, how about the Secretary of the Navy?

Admiral EDNEY. There is no question. I have been in meetings with the Secretary of the Navy and the CNO and have put the people as the number one priority. I have to add that that is the same priority that Secretary Cheney has put within the Defense establishment and in our judgment he has lived up to it.

What we are looking at is a very complex matter of government where you do not know where the bottom line is, and so whenever we get to that bottom line I am convinced the Secretary of the Navy and the Secretary of Defense are committed to doing it in a manner that protects people to the best manner possible.

Senator EXON. Mr. O'Keefe, go ahead.

Mr. O'KEEFE. There is an incident I can recall as soon as you walked through that question that may give you a feel for what kind of a discussion we went through.

Before August 15, the first time I can recall there was an extended, spirited discussion of this was at a Defense Planning and Resources Board Meeting with the Deputy Secretary of Defense as Chair and the service Secretaries and the service Chiefs. We discussed 1990–1991 budget prospects and everyone went through the discussion of where we were and where we were heading, and General Vuono asked the $64,000 question. He asked me, do you think sequestration is going to occur, and will it last all year?

I thought about it several times since that date. At that time, I said no. What I am most concerned about is that we are going to go through all the paperwork to demonstrate, or to implement the effects, only to see an awful lot of that go away.

Since that time, the probability has risen a percentage point a day and it has gotten to the stage where this is deadly serious. But at that phase, at that point in time, it was considered to be something that was just absolutely ludicrous. It was the Sword of Damocles. It was never intended to happen, which was the very intent and purpose of G-R-H.

All the Chiefs were extremely spirited in their position with the Secretary and the deputy, of exactly what that impact would be. So from that very early get-go there was a deep concern that this just could not happen, and all those points were related.

So the internal discussion on it has been very much in the nature of what the impact would be. But we also spent a lot of time talking about exactly how we would manage it which was the biggest concern to the Secretary of Defense. After we have gone through all of the hand-wringing of exactly what is going to go on, if we are faced with it and it is the law of the land and we are going to abide by it, how do we manage it in the least-damaging way possible? That is what has led us to this day, this conclusion.

Senator EXON. My time is up, but I have one last question that I would like to ask. To your knowledge, Mr. O'Keefe, have any public

statements been made about how devastating this would be and why it should not happen?

Mr. O'KEEFE. Senator Exon, I beg respectfully to differ with you, sir. Secretary Cheney has spent a lot of time discussing what he thought the impact of this would be, and it was on that basis that he recommended to the President and received the President's approval for the alternative sequester that was passed forward. In that context, we have done everything possible to argue exactly what that impact would be and how it was the Secretary's intent to proceed in his management of that problem. So I think we have done the most we could to try to deal with the problem. He has argued the case. I cannot speak for what the service Secretaries have said or not outside the process; I would not know. But as for the Secretary of Defense, he has been very forceful on this point.

Senator EXON. Then I think maybe we established what I said with a little different degree of emphasis, but basically I recognize that the Secretary of Defense has said some things, but you cannot recall, can you, where the Secretary of the Air Force and the Secretary of the Navy and the Secretary of the Army have been speaking out on this?

Mr. O'KEEFE. I am just not aware of it. I cannot speak to it one way or the other.

Senator EXON. Thank you, and thank you, Mr. Chairman.

Chairman NUNN. Thank you, Senator Exon. Mr. O'Keefe, there have been statements attributed to the administration and I believe to some people on Capitol Hill also in the press in the last few days, to the effect that a sequester is not that bad for Defense, because the Department of Defense would receive "only about $3 billion less" under a sequester than they would have gotten anyway. Can you tell us where this $3 billion figure comes from?

Mr. O'KEEFE. That is another mathematical mind-boggler that I have walked through myself. I guess there are two ways to look at it, the first of which is in budget authority terms. The post-sequester level is approximately $3 billion less than the fiscal year 1989 actuals, so that is the first $3 billion that seems to have picked up some parlance in the press circles. Inasmuch as that is mathematically nominally $3 billion less, it is in fact about a 5-percent reduction in real terms from the fiscal year 1989 spending levels.

The other aspects of the $3 billion discussion, as I gather, is that if you look at the Gramm-Rudman baseline of $281.8 billion and move through the mathematics of the calculations in order to get to the post-sequester level of $277.8, technically that is $3 billion reduction because of the way this one half of one percentage point exemption occurred and the special rules that exempt certain accounts.

So between those two calculations, that is how the $3 billion is derived. But I think that grossly understates what the real impact is numerically and that is basically what the attempt of these stove pipe charts here was to try to display. I do not really fully comprehend how that particular statement was made.

Chairman NUNN. But you do not believe that is an accurate assessment?

Mr. O'KEEFE. It is a technical fact. It is much like Mark Twain's white lies, damn lies, and stats. It is statistically correct, but it certainly does not state exactly what the impact would be.

Chairman NUNN. We have probably had enough of the complex mathematics, but one other for the record. How will the scoring be under Gramm-Rudman on the shifting of the pay date which took place before the fiscal year?

Mr. O'KEEFE. The baseline is devised based upon an assumption of the prior year rate plus a certain amount. So it is not an actual and is not based on any reality. OMB did, however, adjust the total outlays projected for Defense under the baseline for the pay day change. This changes the total projected deficit, and thus the sequester percentage. However, it does not change the baseline for any accounts to be sequestered under the final order.

Chairman NUNN. But that helps you on outlays, does it not?

Mr. O'KEEFE. For Gramm-Rudman purposes, it changes the total government sequester and thus the sequester percentage, for both defense and non-defense. It is about the same as the one-half of a percentage point change for the adjustment to the baseline. It is a fictional or notional kind of adjustment. The actual outlays will dictate the final deficit.

Chairman NUNN. The actual outlays will indeed be $3 billion less than they otherwise would be; is that right?

Mr. O'KEEFE. As it stands right now under our outlay estimating. But, under the mechanisms used by the Congress to determine compliance with that resolution, once the appropriations bills are scored that is the basis upon which the fiscal year 1990 outlays will be computed for compliance purposes. And it is my understanding that the Congress is not accepting that change in their scoring.

Chairman NUNN. Let me ask each of our vice chiefs this question. We have talked about the long-term effect of personnel cuts of this magnitude.

Looking at the overall scope, not just personnel but operation and maintenance, the cuts that will probably take place there and others, what is the near-term readiness effect on each of your services of the sequester, assuming it stays in effect this year?

Let me start, General Went, with you on that one.

General WENT. Well, as I indicated earlier, I think in terms of measuring readiness from zero to 100 of perfect readiness, I think in the near term this first year as we have to take down troops across all units that that probably would be about a 10 percent degradation in readiness.

Chairman NUNN. About 10 percent?

General WENT. So you would have some units that would go from C–1 to C–2 and others from C–2 to C–3 and generally that kind of a process.

Chairman NUNN. Admiral Edney.

Admiral EDNEY. It is hard to give an exact figure on that, sir. As we look at it now, if we had to deal with it in areas outside of personnel, that is why this flexibility is so important to us.

We know, as an example, that the A–12, the ATA has to be fixed. That is a firm fix price contract, and it is extremely important to the military readiness of this country. That alone is the largest

stumbling block we see outside of personnel. Clearly, personnel is the biggest stumbling block.

When we get the final appropriations, we will be looking at how we take these cuts out of accessions or whether we take them out of thinning out the force. If you take them out of accessions, that gap will stay with you for the next 15 years.

So this is not a short-term impact that we are having. To put an exact percentage rate on decline is very difficult because it will have a rippling effect. You will not only see what I just mentioned, but you will see an impact on the retention, and you will see an impact across the board.

Whether it is 10 percent or 8 percent, we know that we have a great ability to adjust, but there will be an impact. I could not quantify it, sir.

Chairman NUNN. General Hatch.

General HATCH. I agree with the Marine and the Navy Vice CNO. In the near term, Mr. Chairman, when you force those people out, you create a situation where all your units are undermanned. When they are undermanned, that commander reports his readiness status. There will be a number of cases where he is obviously going to drop a notch.

When you look at the other accounts, in O&M, for example, you have to look at how the cuts would be applied to civilian strength. You are talking about depot program maintenance and all of the pieces that go with that, real property maintenance.

When you talk about R&D and procurement, clearly small programs in this area which do not have the flexibility to take a cut will be affected. In the larger programs, the major programs, you have to be very careful that the large cut does not affect some contract that has to be renegotiated. All of those details you have to look at program by program.

Chairman NUNN. I wanted to ask you, Mr. O'Keefe, about the contract renegotiation. What is the effect on contracts if you make a 5-percent cut or 4 percent or 3 percent, whatever it is on contracts? Are there many of them that have to be renegotiated? You listed some earlier, I know, but are those the only ones that have to be renegotiated?

Mr. O'KEEFE. No, sir. It would be far more extensive, as a matter of fact, just the notional big programs that we can see out there that we know contractually will have to be dealt with.

ATF, for example, is an absolute certainty. We have to deal with that. The places where it really is most pronounced and where the practical problems are going to occur will not be as concentrated in the major programs as much as on all the individual line items where the contract value comprises most of the amount contained in that line for the procurement of trucks or forklifts or whatever else. In those cases you have to reduce the quantities of what you buy. You have to renegotiate the terms for almost every one of those contracts because there is no discretion to absorb that percentage within that discreet amount.

When you are looking at the larger programs, there may be an opportunity to shift some of the contractual phasings you may have for various elements of that particular production effort, but anything that is tied to an economic order quantity buy, a multiyear

or in any program in which the value of the contract comprises the preponderance of what is in that line item, there is just no question we are going to see a contractual renegotiation effort.

Chairman NUNN. Is there any way to put a dollar amount on the cost to the Government of those renegotiations?

Mr. O'KEEFE. I could not even begin to guess. Depending on the phase-in, the contractual effort in terms of negotiation timing, it may be early enough to accomplish those adjustments without any incurred costs. In the case where we have terminations or liability for any kind of delay and disruption, it could amount to some fantastic number based upon whatever the contractor rights and conditions are inherent within that contract value.

So it would just be a pure flyer on my part to speculate on how much that would be.

Chairman NUNN. General RisCassi, I did not get to you on the near-term impact.

General RISCASSI. At the numbers we are talking about this morning in the near term, readiness would drop a notch, clearly.

Chairman NUNN. What do you mean by "a notch"?

General RISCASSI. I think you would expect that C–1 units could go down to C–2, C–2 units down to C–3, the same as the Marine Corps indicated, especially if you take the cuts out of the accession base as opposed to looking at structure in the first 6 months.

Chairman NUNN. Senator Gore.

Senator GORE. Thank you, Mr. Chairman. Let me express my thanks to you and our ranking Republican member for having this hearing and delving so deeply into the details of what could take place.

An earlier obligation prevented me from being here at the beginning of the hearing, but I appreciate the chance to ask just a few questions here.

One of my other committees, Mr. Chairman, handles auto safety, and occasionally we have witnesses who come in and testify about the effect of automobile crashes. They show slow motion films of cars with dummies in them colliding with each other. When the film is slowed down, you can see how the dashboard decapitates the dummy's head and does other damage to the simulated human beings that are inside the automobiles.

The Congress and the President are now engaged in a game of chicken, and the President is driving his automobile full speed toward the one in which Congress is riding. What this hearing really demonstrates is what will take place in the military if neither car turns off the course now being traveled.

The slow motion crash is not a pretty one, but the people inside the cars are not artificial. They are real. Our national security is at stake. While everybody is hoping and assuming that the President of the United States is not really serious in threatening to do this, he is nevertheless keeping his foot on the pedal and is not swerving from his course.

I cannot believe that he will allow this kind of result to take place. It would be a catastrophe in my view for any rational approach to conducting our national defense.

To ask a question which I do not think has been asked, can you estimate the cost in nonamortized training involved in these reduc-

tions; in other words, the cost of recruiting and training men and women for the military service who are then immediately let go? We spend the money, and then we throw the money away. What does that cost?

Mr. O'KEEFE. I would ask the chiefs to give you more specifics, but let me give you just a generic point on this. I think to the extent we were to focus the effects of the management sequester in terms of accessions, recruiting people coming in the door, in the end we would be forced to a cohort or a group, your group of people, for the next 20 years that would be at a gap.

So we would be suffering with this problem for a hell of a long time, and it would be a generational problem we would be creating in terms of the lost opportunity, which I think is what you are alluding to in terms of the amortized cost for training.

As I understand it, the cost to train a pilot is $1 million. To the extent that we have folks coming out of pilot school and ready to fly the plane and we let them go, I think you can safely say, just as an example, that you have just dropped $1 million down the chute on that proposal.

Let me defer to the chiefs in terms of what they see.

General RISCASSI. Senator, I do not know if I can define it any better than Mr. O'Keefe. Of course, the new accessions are a continuing loss in terms of capability over time. That may be more damaging than a lost dollar of somebody that you put out of the service as an early out.

So I guess the short answer is, in terms of capability, it is significant because of the opportunity lost to train the young men and women over time and as that equates to the capability of the force.

General HATCH. Senator Gore, the early release of officers and enlisted, in the case of enlisted their 4-year commitment could be rolled up in, a maximum case, a little bit over a year. So your payback on a 4-year commitment would have lost something on the order of 30 percent there.

In our discussion, if you train lieutenants in ROTC programs and then decide not to bring them on active duty, you have lost your investment in their education. All of the things we have discussed, I think, are quite similar.

Admiral EDNEY. I am not sure I can add anything to that. I would add there are some factors here that are hard to put your finger on.

General Hatch was talking about the loss. When you do that in an ROTC program, for example, you also lose the motivation because you have been motivating these people for an end objective of 4 years, and we are talking about having them graduate and not commissioning them in this case.

Clearly, if you talk about the numbers, we would have to look at the flow-through. So if you shut down the numbers we are talking about, certainly it means that the ROTC, recruit training command, A schools and the indoctrination schools that we have which provide us with the trained force will be impacted.

The dollar amount of that impact is harder to give you a qualitative answer, sir.

General WENT. I do not have any way of quantifying the number, but sure we would lose some money that we have spent.

What we would find is, because the kind of rapid reductions we would have to take would come across the whole force, because you release those who have early release dates and do not give regular commissions to those Reserves whose Reserve time is expiring, and so on, the net result is that some people we would really want to keep would not be kept and in the long run you would be training new people to replace them.

Senator GORE. I will ask my other questions for the record. I guess you will continue to have your television advertisements recruiting more people to come in. I suppose some people could be attracted by the prospect of getting a college education and sophisticated training and then immediately getting out of the service upon completion of the electronics school, or whatever. It is not really the smart way to do things, though. I will ask the other questions I have for the record.

Thank you, Mr. Chairman.

Chairman NUNN. I think many of those people would not qualify for the GI bill, because they would not have been in long enough. They have to be in a certain length of time on that.

Senator GORE. I am talking about ROTC. You get your expenses paid for on the front end. You get your education and then you get your advanced training and then you are immediately discharged from the service.

Chairman NUNN. That is true. Senator Gore, do you want to take another couple of minutes? We have had two rounds and I will give you another couple and then Senator Warner will wind it up.

Senator GORE. Okay. I am sensitive to getting here late, Mr. Chairman, so I will not take a full second round.

Let me just ask a follow-up question that I had intended to ask here and I know you cannot give us any kind of dollar figure to respond to the first question I ask, but I was going to follow up with a question about the dollar figure of then returning to square one once sequester was lifted, if it was.

Then the last in the sequence was going to be, what is the net cost of the losses going in and out of sequestration, and is it possible that the cost of going in and out of sequestration would exceed the dollar value of the sequestration itself?

I think that it is likely that it would. I think that it would take us a long time to recover from the process. I do not think we could recover without spending more money to finance catch-up efforts and if different kinds of reductions were driven by the CFE process, then the total effect on our readiness could be really quite profound and could make recovery to the kind of force strength we have been planning for virtually impossible.

Now, I think it is conceivable that we could have Gramm-Rudman-Hollings sequester a second time, and then where would we be? The answer has to be a different approach by the Congress and the President to make this kind of result impossible.

Let me ask my final question. In terms of force levels and readiness, these changes would take us back to what year? The 1970s?

Mr. O'KEFFE. About the mid-1970s.

Senator GORE. It would take us back to the mid-1970s?

Mr. O'KEFFE. Post-Vietnam.

Senator GORE. So the net result of the Reagan-Bush 9 years would be to spend a zillion dollars on build-up and then have a force structure identical to what we started off with. Thank you, Mr. Chairman.

Senator WARNER. Now, maybe the witness would like to answer. [Laughter.]

I would appreciate it if it is not on my time, Mr. Chairman, because it might be a detailed answer.

Chairman NUNN. We will take it out of Senator Gore's round at the next meeting.

Mr. O'KEEFE. Clearly, assuming all of this comes to pass and that is the way it is implemented, the intent or the consequence may mathematically produce a number that may appear to be on the order of the 1970s. It assumes a handful of points that bear mentioning however, the first of which is the Secretary may not take it that way. He may have to make adjustments as he goes along the way as to how the sequester will be applied. In its worst-case scenario, what the Chiefs have described to you this morning is the way it would be handled and, absent any attempt to manage that problem with any flexibility that we have in the Department, that is how it would have to be dealt with.

In terms of comparison to that period of time, I think none of the Chiefs here would argue with the premise that the capability and quality of the force that exists today, even if mathematically exactly the same, is a hell of a lot better today than it was then.

There was nothing that was more pronounced as a concern than the operations of the existing force that was in place in the late 1970s the absence of just operating funds. Although there was a force structure of the size that you have described, it was incapable of operating at all.

That is precisely the tradeoff that the Secretary of Defense made in this particular sequestration effort, given all of the alternatives that were available to him. He elected to make sure that the force structure we have, even at this reduced rate, would be properly paid, carefully managed and as well treated as possible to preserve the quality of life, even at a reduced force level, and that they could still operate at the mission and charter presented to them. So the comparison to that period of time is night and day.

The last point would be that an awful lot of the effort over the past 10 years that you have alluded to has also been directed towards improving not only operations and readiness of the forces, but modernizing the existing systems that are out there. That has largely been accomplished.

The concomitant effect of this particular sequester would potentially endanger the economic order quantity procurements that we have, as well as the contractual terms we have to continue or at least maintain to continue that modernization. So the comparisons to the 1970s, again, are really apples and oranges.

Senator GORE. Mr. Chairman, in conclusion I do not think it is realistic to assume that a sequester this year would be followed by an immediate bounce back up next year to the prior levels, and so after this sequester we might very well have exactly the situation I described a moment ago.

The bipartisan consensus which led to a build-up beginning in the latter part of the Carter administration and then ballooning in the Reagan years saw the country spend an enormous amount of money, much of it wasted, but an enormous amount of money to increase our readiness and military preparedness.

The effect of this decision by President Bush to allow these cuts to go into effect would be to take us back to the readiness levels of the mid-1970s which existed prior to the military build-up and what we would have to see for it is an enormous indebtedness to the Japanese and others and an annual interest obligation that hamstrings our ability to modernize our military and meet our social obligations.

Chairman NUNN. Thank you, Senator Gore. Senator Warner.

Senator WARNER. Now, Mr. Chairman, while my good friend Senator Gore is here, we are in this hearing because Congress failed to do its job, failed to meet its timetable, has yet to get the appropriations bills out.

I bring to my friend's attention the fact that when we went to conference, the Senate tried to get a personnel cut, recognizing we wanted to cut dollars from the personnel account, but oh no, we did not have the guts to do that.

We put a cap on the funding and shoved it right back at DOD and said, you solve it, and so I think before we leave here today I would like to point those few things out. We have got a lot of fault. We do not come into this thing with clean hands.

Senator GORE. Will the Senator yield?

Senator WARNER. Well, it depends upon how much time you need.

Senator GORE. And what I'm going to say? [Laughter.]

Just very briefly, I began by describing it as a kind of game of chicken with both sides headed toward the other, and of course the Congress shares in the blame for what is now a possibility.

But I honestly believe—and I say this in all sincerity to my friend—that the President of the United States has the primary obligation to lead this Nation, and so long as he is willing to swear on a stack of Bibles that we need neither new revenue nor substantial structural changes on the spending side, this kind of result is inevitable.

We can pretend it is not, but it is, and the President needs to be realistic about it. Thank you.

Senator WARNER. We passed Gramm-Rudman. A President signed Gramm-Rudman. Nevertheless, I think we are here because we failed during the course of this session to do our job.

Chairman NUNN. On the theory that this debate will continue. [Laughter.]

Senator WARNER. I would just like to take a few minutes on another scenario.

Putting aside all the politics and pressure groups, we may or may not do something in the next few weeks. I know one thing. We are all looking at the turkey in the oven and everybody has got their airplane tickets. When the 22d of November comes, we are gone. That is the word in the back halls.

Now, whether we have done anything in that period of time remains to be seen. So we may go home for Thanksgiving and Christ-

mas and then along about January and early February we begin to sober up this issue—in the meantime, you folks have to go ahead and do all the things that you have got to do—and then pass something to straighten it out.

But I am inclined to believe we are not going to play total catch-up. In other words, if we pass something on, say, the 22d of November, it is not going to take you all the way back and make you whole as of the 1st of October, and likewise if we do something in February we are not likely to come back and make you whole. So would you give us an idea, as a closing comment, what are the consequences of that partial sequestration?

Chairman NUNN. That is assuming that we take corrective steps sometime in the late January, early February time frame, what damage will have already been done? What actions are you going to have to take between now and then?

Mr. O'KEEFE. Again, the first assumption would have to be that before the Thanksgiving recess the appropriations bill would be enacted?

Chairman NUNN. I would assume that.

Mr. O'KEEFE. To the extent that occurs, and reconciliation or any other vehicle follows that event to either reverse or modify the sequester, if that be the scenario, I think upon enactment of the appropriations bill the Secretary of Defense has got to start looking at the options required.

So clearly by Thanksgiving, if the appropriations bill is enacted and we know what those numbers are, we are going to have to begin taking action. To the extent that that means beginning to release folks, slowing down accessions, or whatever else the Department so proposed, we will have to begin at that time or the scenario that Senator Nunn mentioned is inevitable, which is coming along further in the year and having to take a much more draconian action that we would otherwise have to take.

So the longer we wait for a solution, or a compromise on any other matter that is unrelated to the impact on Defense, the longer it will take, or the more severe the impact is going to be. We will have to begin something upon enactment of the appropriations bill, and we are assuming that is going to be around the Thanksgiving time frame.

Senator WARNER. Thank you, Mr. Chairman.

And I thank the witnesses for coming up here. It was not an easy task.

Chairman NUNN. I would add that I favor the additional transfer authority, and I will support that. I think it would help. It will mitigate some damage, it will allow you to handle this more intelligently. You will still have the big problem of telling each committee what you are going to cut in order to make that transfer, and that is not going to be easy.

And so getting that $3 billion and getting it implemented are two different things. But our committee would be, I think, very forthcoming in trying to help you in that respect. At least I know Senator Warner and I would. And I believe our colleagues would join us.

But let me say this. Just the sentiment I pick up around here is that we are going to have an extremely difficult time getting that

additional transfer authority passed. Because there is a strong feeling that there should be no flexibility, and why not go ahead and take the worse medicine possible? There are a lot of people that are feeling that.

I have always viewed Gramm-Rudman-Hollings as a useful mechanism if you view it as one that is deterrence, to deter Congress and the administration from doing a foolish thing, which is to allow the sequester to go into effect, and to avoid that by taking strong fiscal action in advance.

I also viewed it as a disaster if Congress and the administration decide to jump over the cliff, rather than stopping short of the cliff with the corrective action. And now it looks as if there are a lot of people around this town, the White House and Congress, both parties, who are willing to go over the cliff. And the tragedy is that there is an awful lot of hard work by so many men and women in our military, who are going to be the victims.

Senator Gore mentioned the chicken contest, with two cars coming down the road. There are a lot of pedestrians standing there, and the pedestrains are the ones that are going to get hit. The two cars will eventually dodge each other, because in this town that is the way things happen, but the pedestrains are going to get hit in the middle. And that is the tragedy.

And so we will try to work with you. And you could convey to the Secretary of Defense and to each of your services that—and I will let Senator Warner speak for himself, but I certainly support the additional transfer authority and we will be talking to people. But our budget committee is opposed to it and there is a lot of opposition on the House side.

So I do not think you can count on it right now.

Senator WARNER. I would join the chairman in supporting the transfer authority.

Mr. O'KEEFE. I think your forecast is absolutely right. It does not appear to be gaining any support over there, but I think the wrap-up on this is that, to use Senator Gore's analogy as well, we are looking at the car crash coming, we have got the air bags out, we are strapped in, and we are prepared to manage this, because it is the law. And we have virtually no other alternative.

I appreciate your support of the transfer authority, but I also take aboard your forecast that it is unlikely. And we are recognizing that. We are prepared to manage it, whatever the Congress deems fit to let us have the flexibility to manage within.

Chairman NUNN. Thank you for coming, and we hope to work with you, even in this difficult circumstance. We appreciate all of you being ready on such short notice.

Thank you very much.

[Questions for the record with answers supplied follow:]

QUESTIONS SUBMITTED BY SENATOR JOHN MCCAIN

IMPACT OF SEQUESTRATION ON DOD

Senator MCCAIN. Please provide illustrative projections of the difference between the President's current defense budget request for FY 1991 and the probable level if sequestration occurs in FY 1990 and FY 1991.

What would the levels and difference be for:

Manpower?
O&M?
Procurement?
RDT&E?

Please provide an illustrative range of the manpower and force cuts that would have to be made in fiscal year 1991 if the sequestration occurs in fiscal year 1990 and fiscal year 1991.

Given the fact that the Secretary has discussed the possibility of either constant real defense spending through fiscal year 1994, or 2 percent annual real cuts in defense spending, and the current discussion of sequestration, what contingency plans exist to provide alternative FYDPs and budgets to these new levels?

Please provide illustrative projections of the difference between the President's current FYDP request for each year during fiscal year 1991-fiscal year 1994, and the impact of (a) continued sequestration, (b) constant spending at the fiscal year 1990 level, and (c) a 2-percent annual cut in fiscal year 1991 to fiscal year 1994.

What would the levels and difference be for:

Manpower?
O&M?
Procurement?
RDT&E?

Please provide an illustrative range of the manpower and force cuts that would have to be made by fiscal year 1994.

What procurement "bulge", if any, does the Department currently project for the early 1990s? What additional impact will this have if sequestration or lower expenditure levels continue?

What changes to the planning guidance are currently contemplated to deal with these budget problems?

What steps are being taken to improve the realism of the Department's FYDP projections as a result of the Secretary's improvements in defense management? To what extent do these ensure more realistic projections of actual spending requirements, and the impact of continued sequestration or cuts in the Department's request for funding of the fiscal year 1990-fiscal year 1994 FYDP?

Mr. O'KEEFE. These are all excellent questions. Unfortunately, they cannot be answered at this time. The Department is currently operating under a second Continuing Resolution, with the possibility of yet a third extension. The Department is also operating with an automatic sequester under Gramm-Rudman-Hollings, and at this time it is by no means certain that the sequester order will be rescinded. Until the final appropriations are enacted for fiscal year 1990, the detailed impact of the sequester cannot be determined.

At the same time that the fiscal year 1990 budget is being debated by the Congress, the Department is trying to develop the fiscal year 1991 budget. As of this date, the Department has not been given its final passback number for fiscal year 1991 or a revised Topline for the outyears.

The current DOD Topline for the outyears was established by President Bush in April with modest real growth of 1,1,2,2 percent over a real freeze in fiscal year 1990. At the direction of the Congress, the Department is on a biennial Planning Programing and Budgeting cycle and there was no program review in calendar year 1989. The next program review which begins next April will be the first complete program review by this administration. Over the next several months, the Department will be wrestling with precisely the kinds of questions that you raise.

[Whereupon, at 11:34 a.m., the hearing was adjourned.]

24-783 (54)